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Free Minds and Free Markets

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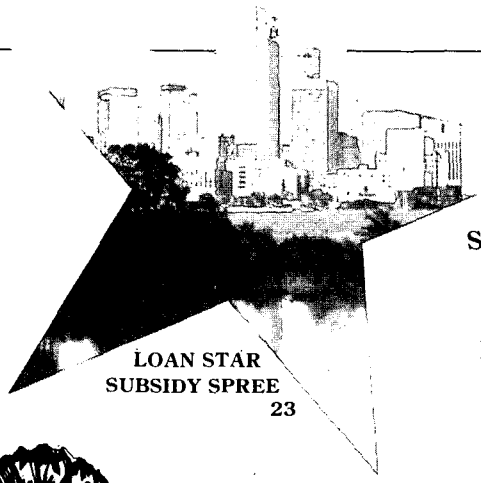

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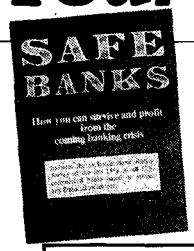

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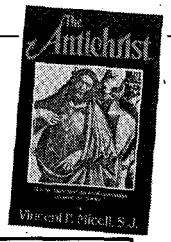

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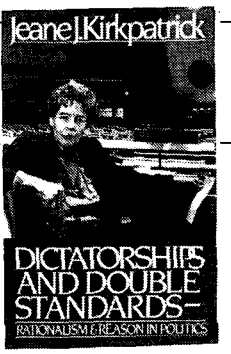

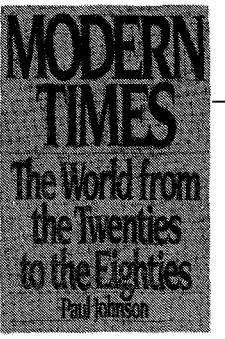

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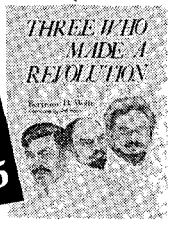

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NOTEs

REASON readers are often the indirect source of our investigative stories. From time to time some of your number send in news clippings or descriptions of what's going on somewhere to alert us to potential stories, whether about the ill consequences of government involvement in people's lives or about some example of private initiative.

That's how this month's cover story came about. A reader in Texas who'd been observing the political shenanigans involved in the escalating use of "industrial development bonds" contacted us, giving chapter and verse on the abuses and blatant distortions of economic decisions about what will get built and where. We did some preliminary nosing around and approached writer Michael Berryhill, who had recently had a fine piece in *Harper's* on the forces pro and con Houston's proposed mass-transit boondoggle. The result, after several months of investigating, checking, and rechecking, is the article "How the Rich Get Richer in Texas," beginning on page 23.

To place the issue involved in perspective: it's not the fact that some people pay less taxes than others that makes this a story worth uncovering—not from our individualist perspective. And it's not the fact that some people are getting richer. It's the way the whole scheme promotes the idea that *governments* generate jobs and prosperity and such good things in life. And it's the fact that politics and business become just a bit more entwined, the politically well-connected have just one more leg up on the competition, and the market is prevented in just one more way from registering the decisions of individual consumers and investors and entrepreneurs.

REASON is hoping to add a person to the editorial staff in early 1985. The job will include editing, research, and some writing—plus the normal "grunt work" involved in putting out a monthly publication. Applicants may send resume, samples of work, and salary requirements to REASON, Dept. ED, 1018 Garden St., Santa Barbara, CA 93101.

—M.Z.

Where do network public-affairs shows like *60 Minutes* and *20-20* get their story ideas? Mike Wallace and Geraldo Rivera don't really think up all those intrepid investigations. Readers who've been following REASON for a number of years know that in at least several cases, stories on those programs have been based on REASON articles that originated with our Investigative Journalism program. It is in fact fairly common practice for the network shows to rely on outside investigative reporting groups for story ideas.

A fairly comprehensive behind-the-scenes look at these groups and their relationships with the networks is provided by a new book, *The Alternative Influence*, written by Philip F. Lawler and published by the Media Institute. It covers the work of the Better Government Association, Fund for Investigative Journalism, Pacific News Service, Fund for Objective News Reporting, Sabre Foundation, and in particular, it contrasts the approach to investigative journalism of REASON and *Mother Jones* magazines. If you've noticed the names of these groups attached to magazine articles and wondered who and what they were, and how they may interrelate, this book will give you some answers. Copies are $6.50 from the Media Institute, 3017 M Street, NW, Washington, DC 20007.

REASON's roving reporter Jack Wheeler has just returned from a second round-the-world investigative journey, which included visits with anti-Soviet guerrilla forces in Southeast Asia, Africa, and a return visit to Afghanistan (where Jack came under fire this time around) and Nicaragua. Much is happening in these areas, as Jack will detail in future REASON articles and reports. An update on the situation in Nicaragua is scheduled to appear in next month's Global Trends, and a cover story on anti-Soviet guerrilla forces in Southeast Asia will be featured soon—when Jack manages to find the time to write it up.

Beginning October 15 he was off on a 22-college lecture tour sponsored by the USA Foundation. Jack illustrates his lectures with an assortment of color slides from each of the countries he's visited. Having attended one of these lectures last June, I know that the effect is very moving. We at the Reason Foundation are proud to have made possible Jack's investigations of the new phenomenon of armed resistance to the Soviet empire.

—R.W.P.

JUST HOW SMART ARE YOU?

(TEST YOUR I.Q. AND FIND OUT!)

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EDITORIAL

Robert W. Poole, Jr.

Giving Thanks

No man's life, liberty, or property are safe while the legislature is in session.

—Quoted by Judge Gideon Tucker, 1866

The 98th Congress has now passed into history, well in advance of Thanksgiving. Left unpassed was an immense stack of bills, sufficient to add billions of dollars in spending and new forms of control over our lives. As you sit down to your Thanksgiving dinner, be glad that we did not get the eight turkeys described below, all of which were killed off by the final adjournment of the 98th Congress.

Four of these foul bills would have taken more of your hard-earned money. Take the REA bailout plan. The Rural Electrification Administration was set up in the 1930s to make subsidized loans to rural electrical cooperatives. Today, with 99 percent of the country wired, the REA is still in business, borrowing money at 12 percent from the Treasury and loaning it out at 5 percent. Naturally, it's broke. So it's been lobbying hard for Congress to forgive some $8 billion that it owes to us taxpayers! Fortunately, this robbery was halted.

Another ripoff proposal concerned $100 million in government water projects. It was a classic case of pork-barrel politics, with legislators agreeing to support each other's boondoggles in hopes of upping their odds of reelection. Bills like this slide through every session, especially in election years. But amazingly, this one died.

Remember the Kissinger Commission and its proposal to end the turmoil in Central America by buying everybody off with your money—to the tune of $8 billion? That proposal was made with a straight face, as if Third World specialists such as Peter Bauer and Alvin Rabushka had never documented the disastrous effects of government-to-government aid projects. Fortunately, this pipe dream appears to have evaporated.

And then there was Superfund expansion. As you may recall, Superfund is the government's response to the problem of toxic-waste dumps. Ignoring the polluter-pays principle, it levies a tax on petrochemical companies (which have the deepest pockets around), regardless of how responsibly or irresponsibly they behave. Proposals were floating around to increase Superfund's kitty from its present $1.6 billion to as much as $8.4 billion, both by hiking the tax rate and expanding its coverage to other industries. But this brute-force approach sank out of sight as Congress rushed to adjourn.

But it was more than just threats to our pocketbooks that hung over us. The long arm of the state was all set to reach out and touch everyone, in new and ominous ways.

In the name of civil rights, a bill had been proposed to overturn the Supreme Court's decision in the Grove City College case. That small independent school refuses to accept government funding, but the feds tried to impose numerous regulations anyway, because some of its students get government loans. The Supreme Court partially sided with the college. Whereupon infuriated egalitarians drafted a bill so all-encompassing that it would have defined virtually every business in the country as an "indirect recipient" of federal funds—the corner grocery (it accepts food stamps), the local pharmacy (it fills Medicare prescriptions), etc.—subjecting them all to the full panoply of affirmative-action rules, equal access for the handicapped, on-site inspections, and liability to private lawsuits. This one, too, died a last-minute death.

Then there was Simpson-Mazzoli, the catch-all immigration bill. Even if one thinks that government should use force to prevent people from seeking opportunities by crossing borders, one could still question the massive expansion of government power contained in this legislation. Among its more ominous provisions were its attempt to turn employers into law-enforcement officers (putting the burden on them to prove their employees are in this country legally) and its requirement for a universal identity card—a form of internal passport. Groups as disparate as the American Civil Liberties Union and the US Chamber of Commerce were part of the coalition that killed this turkey at the very last minute.

Finally, deregulation nearly suffered two major setbacks. Those out to reverse the proderegulation stance of the Interstate Commerce Commission tried to pass a bill shrinking its membership from seven to five, in order to throw out two proderegulation commissioners. And opponents of financial deregulation were determined to close the "loophole" in existing regulations that has permitted the creation of "nonbank banks" that can operate across state lines. After that effort died, the day after Congress adjourned, the Comptroller of the Currency announced that he would resume approving applications for such banks. By the time another such measure can be pushed through the next Congress, it may well be too late to break the momentum of fast-moving interstate banking.

That's eight real turkeys killed. Unfortunately, though, hundreds of others made it through unscathed. For the moment, we have several months of breathing space during which no new assaults on our liberties can be made—no new controls, and no more raids on our pocketbooks. But then the 99th Congress will take their seats.

Wouldn't it be refreshing if that Congress enacted not a single turkey? That happy result could be achieved if we gave our legislators a paid vacation—for the entire next two years. Leave the great problems of the nation unresolved—at least by *government* action. We'd all be pleasantly surprised at how other solutions would be developed, without further spending or new controls. And *that* would really be something to give thanks for.

Robert W. Poole, J.

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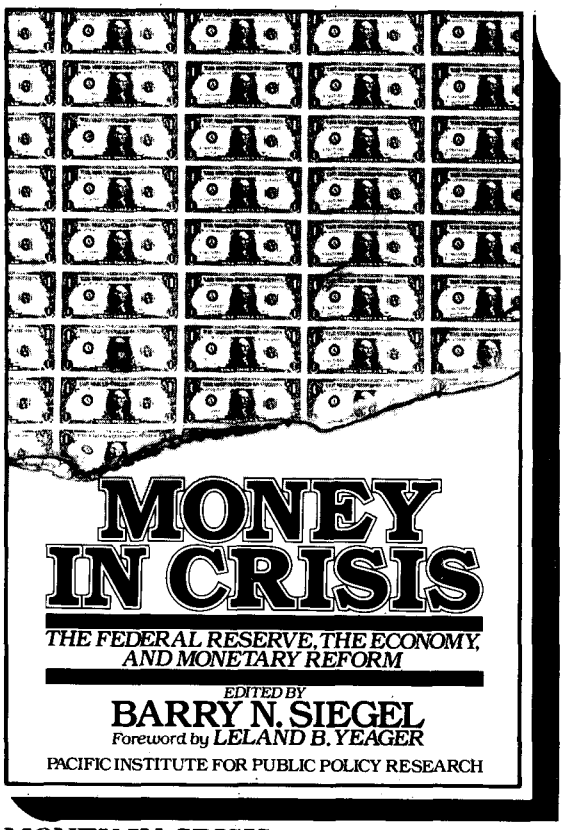

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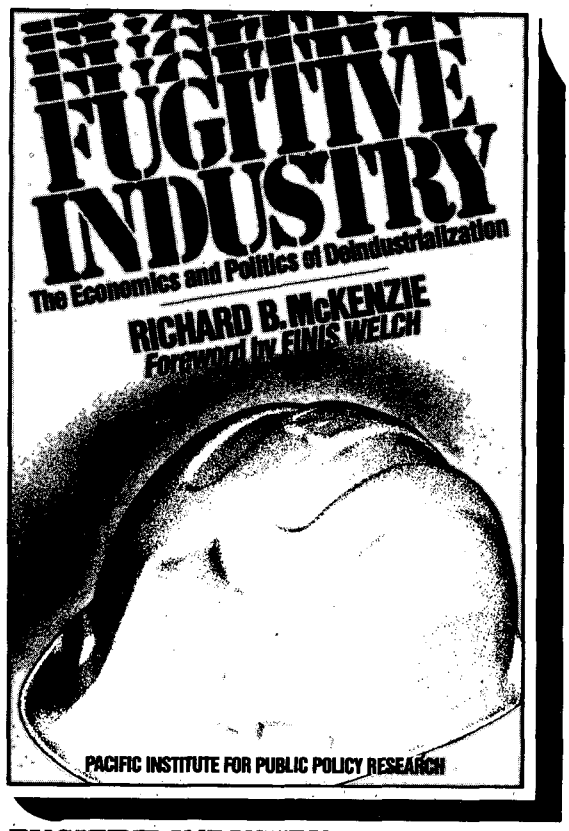
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The Economics and Politics of Deindustrialization
RICHARD B. McKENZIE
Foreword by FINIS WELCH
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By RICHARD B. McKENZIE
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Letters

Afghan Agreement

I saw REASON for the first time on New York newsstands in September. I am an Afghanistan national, and the cover of the September issue was enough to make me buy it.

I have lived for the past four years in the United States, and I have been involved in the issue of US media coverage of the Afghan struggle. I have never read a more informative and to-the-point article about my country than Jack Wheeler's "Up Against the Red Army."

I thank you and Mr. Wheeler for remembering my country and the Afghans' cause. I hope to see more articles like this one and more REASONS on the newsstands.

Amin H. Tarzi
Flushing, NY

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Guilty Until Proven Innocent

One of the Brickbats items in your September issue, concerning the fines that overzealous Internal Revenue Service agents have been meting out to taxpayers, was right on the mark.

Recently I discovered that an Idaho woman had been fined $500 for crossing out four words on her 1982 income tax return. She paid her taxes in full and, on request, sent in a new, unaltered return. Moreover, the IRS later discovered that she had made a $200 error in the government's favor. But instead of refunding the money, the IRS told her it would be applied to the fine, and that she could not appeal until she had paid the remaining $300, which she did. But her appeal was summarily rejected without explanation. When I heard about the case, I demanded to see the records and immediately telephoned IRS Commissioner Roscoe Egger for an explanation.

The good news is that, within a week, Egger rescinded the fine, returned the woman's money with interest—and an apology. The bad news is that there are dozens, perhaps hundreds or even thousands, of similar cases where justice will never be done because the IRS seems to operate on the assumption that honest, law-abiding taxpayers are guilty until they can prove that they are innocent.

Steve Symms
United States Senator
Washington, DC

The Facade of Britain's Housing Sale

I hope REASON readers will not be impressed by Stuart Butler's support for the British government's peculiar approach to selling off public housing (Trends, Oct., p. 19). This was as shabby a boondoggle as any that Britain or America has seen, and one which can only rub in the lesson that government favor, not individual effort, is the way to a better living standard.

The privilege of buying public housing at far below market value has been reserved for the very people who have already received most from the system: the tenants who have enjoyed subsidized public housing for the longest time. Nothing whatever has been done to bring justice for the outcasts of the system, those who have been excluded from any hope of renting a home by government policies of fixing rents for both public and private housing at far below market-clearing rates and of giving existing tenants virtually absolute security of tenure.

Restoring freedom and justice to the housing market would require displacement of existing tenants on a massive scale, something that Margaret Thatcher's government has not dared even to say. So five years after she came to power it is still taken for granted in Britain that for anyone unable to get a mortgage, the only hope of getting a home is to go as a supplicant to your local government office and hope to be put on a waiting list. And if, often years later, you are allotted an apartment, you hang on to it till the day you die. There's a job going in another part of the country? Forget it—you'd never get another apartment in a different local authority area.

For me, who—thanks to a US immigrant visa—was able to escape from what had become a hopeless situation, the most wonderful sight in America is still those "Apartment to Rent" signs, a sight unimaginable to a couple of generations of Britons.

Victor Robertson
Indianapolis, IN

Taxing Matters

I believe Mark Skousen's advice (Investments, Sept.), under the subhead "*$5,000 foreign bank account,*" may be misleading. Mr. Skousen says: "The IRS instructions state that you can actually [indicate on your federal tax form that] you don't have a foreign bank account, when in fact you do—as long as it doesn't exceed $5,000 in value. The exemption applies to *each individual*, so if you have five members in your family, you could put up to $25,000 abroad without having to report it to the government."

Page 22 of the 1983 "1040 Federal Income Tax Forms and Instructions" for Schedule B, Part III ("Foreign Accounts and Foreign Trusts") states: "Check **No** if . . . the combined value of the accounts

(Continued on p. 65)

Communicate with REASON, Box 40105, Santa Barbara, CA 93103. We appreciate receiving your letters typed double-space and limited to 200 words. Letters sent to REASON will be considered for publication (unless otherwise noted) and may be subject to abridgement or editorial comment.

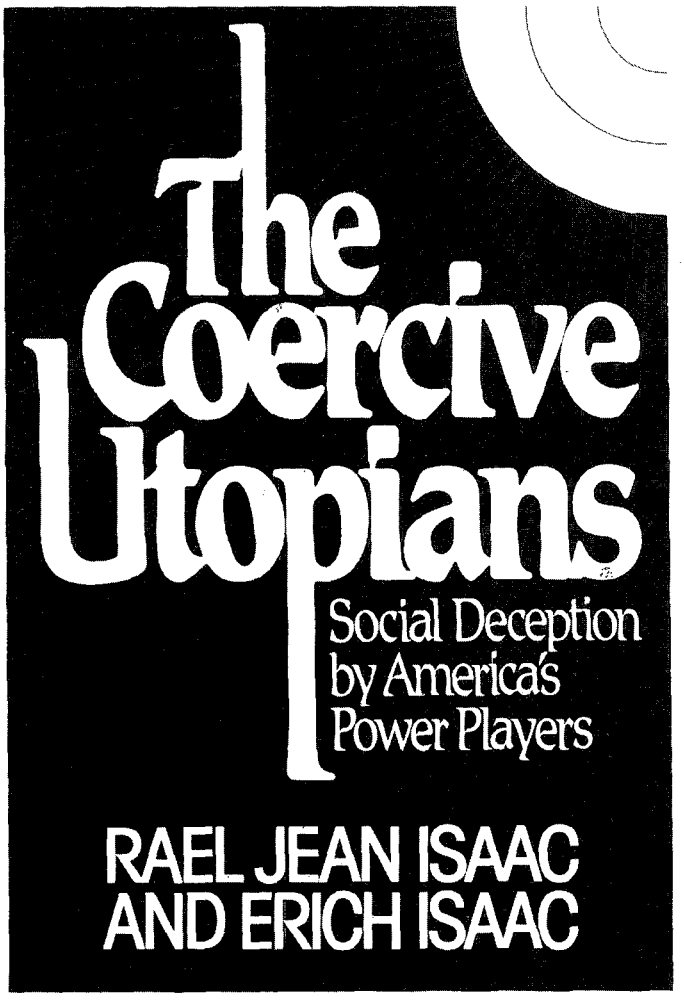
Who Are the Villains? What Are They Trying to do to us? Are They Succeeding?

They are all here—the peaceniks and freezeniks, the radical environmentalists, the social gospel preachers, the radical think tanks, the social engineers in education and the media elite.

They are called "the coercive utopians" in a blockbuster of a book by Rael Jean and Erich Isaac.

"Utopian" because they are often motivated by noble, if impractical and foolish dreams.

"Coercive" because they are determined to force their unworkable and dangerous remedies for the world's problems on the rest of us.



Meticulously researched, *The Coercive Utopians,* reveals the secret goals, the hidden agendas of many of these individuals and groups. It tells who they are and what they are trying to do to our wonderful country—a country that will be a lot less wonderful if they have their way.

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brickbats

Just how big is a standard-size pickle supposed to be? We may never know. In a rare fit of common sense, the Food and Drug Administration has declined to get involved in a proposal that would have dictated the shape of cucumbers used for pickles. Pickle Packers International, a trade association, protested that pickles have been made in America since colonial times, and no one has yet seen a need to establish standards for them. Clausen's Pickle Company reminded the FDA that the size of pickles has nothing to do with their safety. On the other hand, a standard pickle size *was* proposed by a United Nations agency (naturally) that is seeking to standardize foods sold internationally. Heaven forbid that some Bolivian should take a bite into a pickle that's smaller than one eaten by a Pakistani.

When it comes to partying, nobody does it better than the Italian Communist Party. Karl Marx was nowhere to be found at the party's Festa de l'Unita in September. Maurizio Tomassoni, an activist in San Marino's Communist Party, was selling T-shirts bearing the flag of the Old Confederacy at the 18-day festival. "We'll sell just about anything," he said cheerfully. "There are so many young people who like this flag. It reminds them of Elvis Presley." Meanwhile, a Soviet Intourist stand was desolate while visitors crowded around a stereo shop next door. A cartoon in *La Repubblica* depicted a doleful Karl Marx declaring, "This year, I'm not going to the Festa de l'Unita. I don't know anybody there anymore."

Who says tax forms aren't good for anything? Internal Revenue Service supervisor Joseph Scanzillo faces a possible 20-year prison term and a $20,000 fine for stealing tons of tax forms and selling them to recycling firms. The Massachusetts taxman pleaded guilty to selling 600 to 800 pounds of IRS material a day to recyclers. The companies allegedly paid three to five cents a pound for the paper, which was pulped and made into brown bags or wrapping paper. Many have said that the only thing a 1040 is good for is to wrap fish. And we have Joseph Scanzillo to thank for that.

Maybe there's hope for Ralph Nader after all. He's showing signs of the same attitude he so loftily criticizes in large companies. Tim Shorrock, editor of *Multinational Monitor*, a magazine on the role of corporations in international affairs, was fired after sending out a press release that hadn't been cleared first with then-owner Ralph Nader. Shorrock and two other editors approached Nader and asked to bargain with him collectively about the firing and other work-related grievances. In a maneuver that would do Marc Rich proud, Nader informed the sacked editor that he had transferred ownership of the magazine to Essential Information, a foundation that finances investigative journalism, and that Shorrock's grace period—he had been told he could stay on the payroll until he found a new job—had been eliminated. Way to go, Ralph. Cornelius Vanderbilt would be proud.

The grand prize in the "Poormee" contest for the most blatantly self-serving argument for protectionism goes to the shoe industry. It wants import quotas because growing reliance on imported footwear is "jeopardizing our national security." An industry press release warns that the "military might go barefoot in case of war." It actually claims, "In the event of war, it is unlikely that we could provide sufficient footwear for the military and civilian population. The United States will not have time to train new workers. Nor will we be able to wait for ships to deliver shoes from Taiwan, Korea, Brazil and Eastern Europe." Scary, huh? There's more. The shoe shortage could cripple battle plans in Europe where NATO is deemphasizing tanks and armored divisions. "This strategy will fail if the foot soldier is without shoes," the industry warns. Whew! We don't want that to happen to GI Joe, do we?

IRS
AUDITS
IT APPEARS, MR. GROMMET, THAT YOU OWE US A TOTAL OF $9,159.06 IN BACK TAXES AND PENALTIES....
OK- HERE'S A COFFEE MAKER, TWO CLAW HAMMERS, AND AN ARMREST FOR THE PENTAGON - THAT SHOULD COVER IT!

To say that New York's subways are filthy is like saying that Calcutta has a few too many people. But Calcutta will be a ghost town before Fun City subways get any cleaner, thanks to an arbitration ruling against the Transit Authority. The ruling will allow the 600 subway car cleaners a 15-minute period before starting work to decide, by seniority, who shall sweep and who shall mop. The evil managers of the subway system thought they could just have supervisors tell workers what to do—put down the broom and take up the mop, or wash the window, or whatever. But that would violate seniority and the union wouldn't stand for it. "When it gets down to this ridiculous level in contract interpretation, it becomes plain that the unions are not very interested in having us manage the place," says Bruce McIver, director of labor relations for the Metropolitan Transit Authority.

—MARK EDWARD CRANE

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TRENDS

IF CRIMINALS PAY, CRIME WON'T

Restitution—making criminals compensate the victims of their crimes—has been almost completely absent from the American criminal-justice system. So when the highest legal officer of the nation's second-most populous state calls for making restitution part of the penal system, it is an event worth noting.

Robert Abrams, attorney general of New York, recently argued for restitution in a *New York Times* opinion piece. Not only would the prospect of facing "economic sanctions" help deter criminal activity, Abrams contended, but "restitution also supports the rehabilitative aims of modern penology by encouraging the offender to acknowledge and assume responsibility for his act."

Indeed, the notion of individual responsibility is a fundamental pillar of a free society, in which the rights of individuals are held inviolable. What follows from the application of this principle to true criminal acts—acts where someone's rights have been violated—is the requirement of restitution. But in the American legal system, crimes are conceived of as offenses against the state, so the government monopolizes criminal prosecution. Victims, if they seek restitution, must sue for it in civil courts. And for a variety of reasons—time and expense, fear of reprisal from their victimizers, reluctance to go through a second trial, etc.—this option is often rejected.

"Several states now mandate victim restitution where feasible," Abrams reported. "In Arizona," he noted, "courts may allocate all or part of criminal fines as restitution to the victim." And in New York, recent legislation now enables authorities to confiscate and sell a criminal's property, with the proceeds "distributed first to the victim as restitution or damages."

A perennial argument against restitution is that most criminals are destitute, so restitution would be applied differently for rich and poor offenders. Abrams specifically engaged this argument, suggesting that through "expanded work-release programs and prison-based industries," criminals might earn the means to pay back their victims.

In a later letter to the *Times*, anthropologist Rolando Alum, Jr., noted that restitution is an old idea that has been incorporated into the penal systems of many societies, both ancient and modern. He called Abrams's proposals "plausible options for our penal system." Indeed, Alum wrote, they "should be quite effective in an open society."

Not only effective—but just, as well.

FLOWING WITH THE MARKET

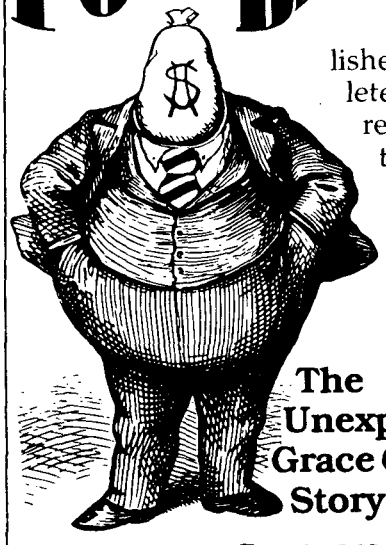
You didn't have to see the movie *Chinatown* to know that one of the big problems in California has been and continues to be water—who gets it, and for how much, and at whose expense. Because of substantial government intervention via heavily subsidized water development projects, price and usage controls, and occasional corruption over the years, a true statewide market in California water hasn't had a ghost of a chance. But the idea is gaining more and more currency.

A sign of the times was a recent opinion piece in the *Los Angeles Times* by Nancy Moore and Timothy Quinn, two researchers at the Santa Monica, California-based Rand Corporation. "The idea of a statewide water market seems like nothing less than heresy to many Californians, including most of those who make or try to influence statewide water policy," they drily noted. Yet they argued that a market framework, in which water could be freely traded, would be the best available solution to problems of water allocation.

Quinn told REASON that to a limited extent, water is already bought and sold in California in about a half-dozen "adjudicated basins." In these groundwater basins, state courts from the mid-1950s to the mid-1970s allocated fairly clear-cut property rights to municipalities and some individuals; together, they now sell an estimated 14 billion gallons of water annually. But that is an exception to the rule. Also, there is no chance of the practice spreading further, since the state supreme court nine years ago made the creation of additional adjudicated basins virtually impossible.

Quinn noted that in his and Moore's view, what is lacking in the current

PORK BARREL



When the Grace Commission on government waste issued its final report on members of Congress who block attempts to cut spending, it succumbed to intense political pressure and published the volume with all the names deleted. Now the complete unexpurgated report is available in this volume—containing every name in the original report along with a new introduction by the authors. The members of Congress cited range from big spenders to fiscal conservatives. This book is a devastating indictment of the congressional pork barrel.

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scheme for most of the state is the equivalent of a "pink slip" (property title) for auto owners. If Joe Smith has a pink slip saying that he owns a 1980 Toyota, he not only has the option of using the Toyota to his best advantage but he may sell it nearly anywhere he chooses at the best price he can get. Most users of California water, in contrast, have the option only of using water but no right to sell any they don't use. So they have virtually no economic incentive to conserve and use sensibly available water. "The voluntary exchange of a market generates strong pressure for stretching available supplies," Moore and Quinn noted.

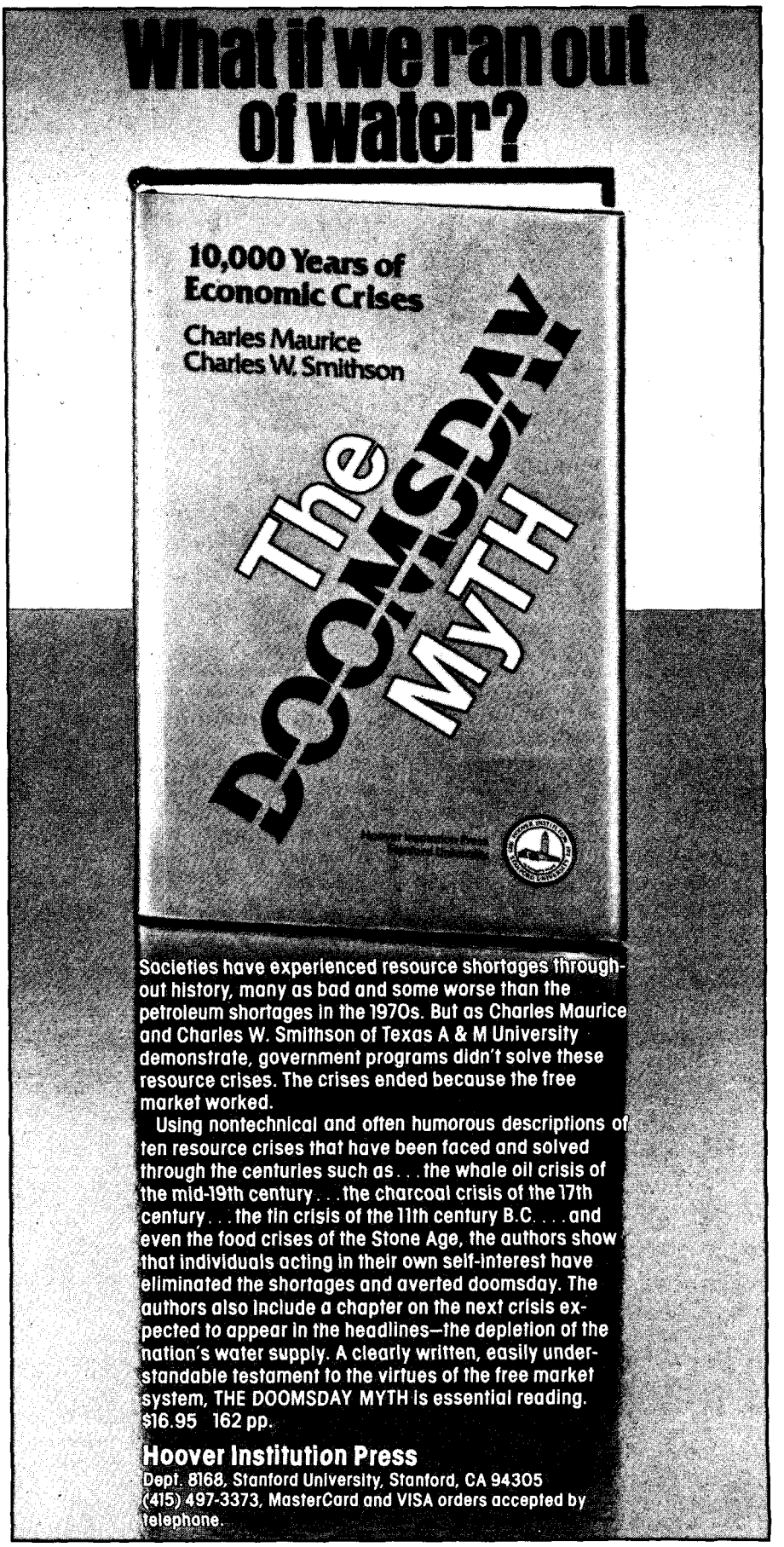
In addition to the incentive to conserve, there are other, related, advantages of a market system, Quinn and Moore wrote. One is a more rational allocation of water among users. The irrationality of the present system is evident in the enormous disparity in water prices around the state, ranging from $2 per acre-foot in "water-rich" areas to more than $200 in "water-poor" areas. In a market situation, owners of the cheaper water would have an incentive to sell their water to users in water-poor areas, to the advantage of buyer and seller.

Yet another advantage of a market system would probably be a reduced need for expensive new water projects. "We would expect *fewer* projects to be built as water-poor areas discover that statewide conservation is much cheaper than construction of new dams," Quinn and Moore noted. Quinn pointed out to REASON that environmental disruption would be reduced accordingly.

The researchers are quite optimistic about the chances for "some form of a statewide water market" in the next 20 years, for two reasons. The first is economic: "strong pressures exist to find low-cost ways to allocate California's scarce water." The second is political: they believe that "more than any other policy option, a market has the potential to achieve a consensus of farmers, urban dwellers and environmentalists, in both water-poor and water-rich areas."

FIGHTING CLOTHES-MINDED BUREAUCRATS

Sometimes trade protectionism seems like a shabby inevitability. Limiting or taxing foreign-made goods rewards the beneficiaries of such policies, US pro-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ducers, in giant chunks but penalizes individual consumers in tiny dribs and drabs. So the beneficiaries have a powerful incentive to lobby *for* protectionist measures, while it rarely makes sense for consumers to spend much time or energy lobbying *against* them. Recently, however, this pattern has been broken by an *industry* lobby that aims to relax certain protectionist measures.

The Retail Industry Trade Action Coalition is the new phenomenon. It was formed to fight import restrictions on textiles and clothing imports. They have their work cut out for them.

The supposedly free-trade Reagan administration has dramatically stepped up the government's use of temporary embargoes on imports, called "quota calls." Even when an import is not otherwise subject to trade restraints, it is vulnerable to these quota calls whenever the angels of mercy in the Commerce Department decide that domestic businesses are being hurt by the import. At that point, the quota call may be slapped on, often without any notice.

Another Reagan-administration indignity—and one that the coalition is sinking its teeth into—is a change in the "rules of origin" regulation. The change is designed to crack down on a way that foreign producers have devised to get around quotas, called "island hopping" or "quota engineering." Every country has a quota restricting the quantity of textile products it can import into the United States. Take sweaters. *Business Week* reports that after China has filled its sweater quota, it ships more sweaters to New Zealand, where a small portion of the production is completed and the sweaters are then imported to the United States under New Zealand's quota. Other sweaters may go to Hong Kong (in fact as much as 90 percent of the sweaters imported from Hong Kong may originate in China).

But in a display of protectionist zeal, the Reagan administration took it upon itself to put the kibosh on island hopping. Earlier this year, it announced a whole range of new technical requirements for ascertaining an import's country of origin, some of which involve a determination of "substantial transformation" in the official country of origin. All told, these rules were "bizarre enough to match the most creative fashions of the rag trade itself," the *Wall Street Journal* editorialized recently.

But the retail industry trade group has fought back. Although the new regulations took effect as scheduled, the coalition took part in a suit trying to get the federal government to stop their enforcement. Coalition spokesperson Robert Brouse told REASON that the group has filed comments with the Customs Service strongly opposing the regulations and has had representatives testifying before the Senate Foreign Relations Committee in the same vein.

So far, the coalition hasn't scored any major victories. Despite its best efforts, the Reagan-administration rules went into effect on September 7, just in time to have a crippling effect on a big part of the Christmas custom. But the coalition's very existence is an encouraging sign for consumers.

WORKFARE PAYING OFF

Since the welfare state seems unlikely to evaporate anytime soon, are there any good ways to reform it and reduce its size? One proposed reform is "workfare"—requiring that all welfare recipients work in order to receive benefits. Results are trickling in on experimental workfare programs, allowed since 1981. And they indicate that "when properly administered and monitored, such programs can be reasonably effective," as a *New York Times* editorial put it.

One of the areas where workfare has been tested is San Diego County, in California. Two years ago, then-Gov. Jerry Brown authorized the San Diego experiment for recipients of Aid to Families with Dependent Children (AFDC). Included in the experiment were welfare mothers with children at least six years old. The recipients become eligible for workfare only after they've completed a two-week session training them to look for work in the private sector. After the training and a one-month period in which they are supposed to look for jobs on their own, the workfare actually starts, with the recipients performing community service work.

Joan Zinser, the head of workfare in San Diego, told the *Los Angeles Times* that in the first 18 months of the program's operation 3,230 welfare recipients were in the program. About a sixth of them—536—subsequently found permanent jobs, and 384 others refused to participate and were denied all or part of their benefits for up to three months.

Workfare has its opponents. For example, Rep. Tom Bates, who chairs the Human Services Committee of Califor-

Holocaust at Sea

A new battery will power a weak flashlight for many weeks, but will be drained quickly by a strong light. A loaf of bread lasts the longer the slower you eat it, and a quantity of fuel lasts forever if you don't burn it.

Obvious?

Not to the media moguls or to the supreme intellects who set their tone. For in the same way, the halflife of a radioisotope is inversely proportional to its level of activity: the dangerously high levels are produced by *short*-lived nuclides. Radiologist Jane Fonda will frighten you with long halflives, and poet Allan Ginsberg will scribble "poems" about the 25,000-year halflife of plutonium, but it takes only a minimum of horse sense to see that if an element is stable and does not radiate at all, its halflife is infinite.

Among the most inocuous radioactive elements, therefore, is uranium (U^{238}), for its halflife is 4.5 *billion* years. In practice, its only radioactive danger arises in its decay chain producing the Unmentionable Gas radon, and that is not so dangerous by its activity (halflife 22 days) as by its role as a transporting agent; the real radioactive danger comes with the radon daughters, with halflives of only hours.

It inexorably follows that the brilliant intellects in *Slime* and *Newspeak*, or the *Public Brainwashing System* will studiously avoid breathing a word about the radon daughters, for it most inconveniently causes lung cancer in energy conservation — well-insulated, but badly ventilated homes trap radon and are now a significant cause of lung cancer. But when a ship with a uranium cargo sinks in the English Channel (the chemical combination with fluoride makes no difference to its radioactivity), it stays in the headlines for weeks. *Newsweek* used phrases like "a nuclear near miss... Fears of nuclear contamination across Western Europe... Compared with the threat of a nuclear disaster, the danger of an old-fashioned oil spill came almost as a relief."

Fortunately, cooed the *Newsweek* scholars, "uranium hexafluoride has a low level of radioactivity until it is converted into enriched uranium for nuclear reactors..."

Quite false: enrichment does not significantly change the level of activity, which remains very low. (Reason: enrichment raises the fraction of U^{235} from 0.9% to about 3%, but the halflife of U^{235} is 710 million years.)

CNN talked about the danger of an explosion, implying, and probably believing in, a nuclear explosion. It is true that UF6 reacts violently (not explosively) with water — as does, for example, metallic sodium — but that is a *chemical* reaction that has nothing to do with nuclear matters, not to mention the incomparably more dangerous chemical cargoes, including lethal poisons and outright explosives, that are routinely shipped across the oceans but leave the networks quite cold.

Any danger from radioactivity is thus close to nonexistent: even the radon danger, so acute in many American homes, is virtually absent, for the English Channel is rather well ventilated.

But what would happen if a terrorist nevertheless somehow brought the 3% enriched uranium to a nuclear explosion?

He would surely be guaranteed the next Physics Nobel Prize.

SWEPT AWAY in the devastating maritime holocaust was the question of why a French ship in the English Channel should be shipping uranium to the USSR. As *Access to Energy* readers remember, the USSR enriches uranium (increases the fraction of fissile U^{235} in non-fissile U^{238} from 0.9% to about 3% so that it can be used to fuel light-water reactors) for a convenient price: a toll in the processed uranium. The enriched part fuels Soviet reactors, and the depleted part is bred into plutonium for Soviet warheads.

It might be thought that this is another example of the European penchant for staggering into the next blood bath, but this time the explanation is entirely different.

The Soviets offered enrichment service to any country in the world in 1968, but the West rejected the offer. The man who made the Soviet dream come true was Jimmy Carter: after he unilaterally abrogated the Non-Proliferation Treaty (in which the Haves guarantee the Have-nots full access to nuclear fuel and technology) and reneged on contracts with US allies in Europe and especially Japan, the rest of the Western World saw that there was one thing more unpredictable, unreliable and irrational than even the Soviet Politbureau: the American liberal establishment. By 1979 *one half* of the European Community's uranium was enriched in the USSR; by 1981, the Soviet share had increased to 61%, and the US, once the sole enricher of Europe's nuclear fuel, supplied no more than 16%. By now, Europe's two enrichment organizations, Eurodif (diffusion) and Urenco (centrifuge) presumably process the majority of Europe's needs.

It would be nice to give some of the credit for this US policy of self-mutilation to the then Vice President Walter Mondale; however, it is doubtful that Carter consulted with him on such matters. Besides, what would he know about uranium hexafluoride? He probably thinks it is some kind of nuclear jinxed toothpaste.

[*More*: See Chapter on International Policy in *Free Market Energy — the Way to Benefit the Consumer*, Universe Books, New York 1984.]

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nia's state assembly, says, "Even though it's beneficial for some, I think they should have a voluntary component rather than forcing them to do something that may or may not help them in the long run."

But much of the response has been enthusiastic—including, interestingly enough, among many of the participants themselves. Jane Barnes, the mother of three teenage children, told the *Los Angeles Times* that she initially resented it when the workfare program assigned her to work as a clerk for the Fire Department. But now, she says, "I love the program. I'm glad they made me do it. It gave me the opportunity to be something I wanted to be. It gave me the confidence to do it."

A preliminary assessment of the San Diego program by the Manpower Demonstration Research Corporation (MDRC) found this sentiment widespread among participants. "It was clear from the survey that the worksite positions were not considered 'make work' and that the great majority of participants expressed satisfaction with their jobs." The "great majority" also thought the work requirement is "fair."

Workfare wins praise even from some participants who have refused to work and had their benefits cut. Welfare mother Kathy Carson, assigned to wash city buses, walked off her job because of conflicts with her supervisor. But she commented to the *Los Angeles Times*, "Just because I didn't get along with one guy doesn't mean the program is bad. If I had to go through it again I think I'd do it the right way....I think it's a good program."

In addition to looking at the San Diego experiment, the MDRC also investigated two Maryland workfare programs. Both studies included cautions that there is insufficient evidence to know how many workfare participants will hold down permanent jobs in the private sector, but the MDRC did conclude that a mix of training programs and workfare can be beneficial.

Meanwhile, New York City has implemented a workfare program that dwarfs California's. The *New York Times* recently reported that about 15,000 welfare recipients are reporting for work in 65 government and private agencies as part of the city's Public Works Program. They "work at jobs that range from cleaning toilets to bookkeeping and translating," according to the *Times*—and, not incidentally, are supplementing the highly paid, unionized city government work force at far less cost than public employees.

"It's slave labor," groused Eileen Maloney, a workfare participant doing clerical work in a welfare office in Brooklyn. Mayor Edward Koch disagrees. "Even if they are not learning skills that are transferable, they're working—and that's a work skill," he said.

GLOBAL TRENDS

SPREADING LIBERTY AROUND

LONDON—That a strong revival of classical liberal (libertarian) ideas is taking place in Europe was made quite evident by the Second World Libertarian Convention, which met in this city in mid-August. This gathering drew a larger attendance than its predecessor two years earlier in Zürich (about 130 compared with 85 or so).

Unlike both the United States and Canada, where the most-visible aspect of each libertarian movement is a political party, European devotees of liberty have chosen other ways to spread their ideas. The British movement, for example, includes three major organizations, two of which (the Adam Smith Institute and the Institute of Economic Affairs) are think tanks, and the third is the Libertarian Alliance, which operates a bookstore, issues pamphlets, and sponsors lectures. All three have been quite effective in getting free-market, individualist ideas before the public and into the public-policy debate.

Similar, but newer, organizations exist in Belgium, Holland, and Norway. The European movement now holds European libertarian conventions in the years in between world conventions, with last year's event bringing over 100 of the continent's young writers and thinkers together to compare notes and exchange ideas on what does and doesn't work in spreading ideas.

Besides Europe and the United States, representatives were also present from Australia, Canada, and South Africa. Among the latter was REASON correspondent Leon Louw, who heads South Africa's Free Market Foundation. Louw and other foundation staff have recently been serving as consultants to the governments of Bophutatswana and Ciskei, two of the independent black homelands surrounded by South Africa. Louw and his cohorts are trying to figure out how, by means of deregulation and privatization on the Hong Kong model, to turn these barren, desperately poor countries into viable free societies.

Another libertarian think tank being consulted by a government seeking economic success is the European Institute, headed up by REASON correspondent Michael van Notten. He reported that he has become a consultant to the government of Aruba, one of the Dutch West Indies. The island is gaining independence in less than 18 months, and its political leadership is intent on making it into the Hong Kong or Switzerland of the Caribbean.

Such consulting assignments are a sign of growing acceptance of free-market ideas. And while there were lively discussions at the convention about the possible pitfalls of getting too closely involved with governments, in general the participants displayed a welcome degree of realism about the good that can be (and in the case of Ciskei, already has been) accomplished by such activity—tangible, meaningful increases in human freedom.

—ROBERT W. POOLE, JR.

ROUTING TV MONOPOLIES

EUROPE—The idea is foreign to Americans, but exclusive state control of TV and radio is the norm

(Continued on p. 20)

WORDS OF PEACE ON THE DRUG WAR

It's a sign of changing times indeed: Florida's 4-H Club, in a recent mock

legislative session of 200 teenage members, overwhelmingly passed an amendment to legalize marijuana as a cash crop. The farm youth club may have acted only from self-interest—rather than out of principle—but its action may be indicative of a widening strain of rethinking drug prohibition.

An especially noteworthy instance of this was the recent publication of Arnold Trebach's essay "Time to Declare a Drug Truce"—in the *Wall Street Journal.* Trebach, director of the Institute on Drugs, Crime and Justice at American University and author of the 1983 book *The Heroin Solution* (Yale University Press), announced that "we have had enough of drug wars" and that "we can rationally coexist with a good deal of drug use in our society." In any case, "we do *not* have the power to make it go away," noted Trebach. Calling President Reagan's "War on Drugs" a failure, he urged the establishment of "some form of 'drug peace.' "

Trebach pointed out various irrationalities about drug prohibition in addition to its obvious unenforceability. For example, while abuse of (legal) tobacco causes some 300,000 deaths a year, there were only about 1,800 deaths from overdoses of (illegal) heroin and cocaine, and "deaths from marijuana overdose are not estimated because they are virtually nonexistent." Moreover, studies have shown that for alcohol, heroin, and cocaine, only about 1 of 10 users of these substances becomes dependent on them, while 8.5 out of 10 tobacco users develop a dependence. And Trebach also noted that the number of Americans using tobacco has dropped from nearly 43 percent in 1965 to 32 percent last year—without tobacco prohibition.

Trebach proposed that national drug prohibition be repealed in favor of a "states-rights model"—whereby each state would set its own policy on drugs. He suggested that drugs be dispensed under a government-regulated system, as are tobacco, alcohol, and pharmaceutical drugs.

That certainly falls short of an "individual rights-free market model," whereby *individuals* would set their policy on drug use, and market forces, including consumer preferences, would "regulate" purchasing conditions,

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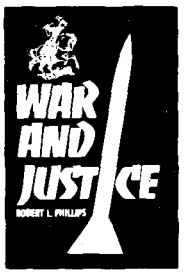

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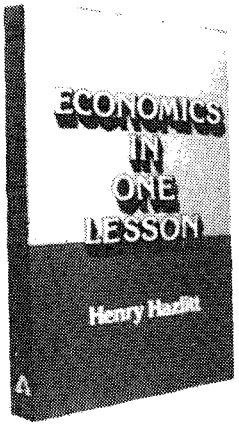

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GLOBAL TRENDS

(Continued from p. 18)

throughout Europe. Lately, however, chinks have been appearing in the state's monopoly armor.

The most significant progress so far has occurred in Italy, where the constitutional court ruled in 1976 that independent local stations can legally coexist with the state's broadcast monopoly (RAI). Since then, Italian TV has turned into "a first-come, first-served, grab-your-frequency free-for-all offering viewers here one of the widest ranges of TV choices in the world," Rome-based writer Sari Gilbert reported recently in the *Wall Street Journal.*

Perhaps typically of Italy, the government doesn't bother to enforce a licensing requirement, so some 5,000 private TV stations—most of them technically illegal because they are unlicensed—compete heartily with the government's RAI 1 and RAI 2 networks. While "many of these stations are very local," Gilbert wrote, "there are three quasi-national networks—Channel 5, Italy 1 and Network 4." The Channel 5 network—27 affiliated stations reaching nearly 95 percent of the country—"is regularly No. 2 in the national prime-time ratings," Gilbert reported. And all three private networks are ahead of the government's RAI 2.

Now West Germany's state-controlled TV stations have lost their broadcast monopoly, and private firms are jumping in on the action. One consortium of a West German and six American entertainment companies is launching a German-language pay-TV service for viewers in Austria, Switzerland, and West Germany. Another American-German consortium also plans a pay-TV service. And pay-TV services have already been set up in Great Britain.

But the real battle may come in the area of broadcast satellite TV. Enticed by Europe's fast-growing TV advertising market—potentially worth billions—the government of tiny Luxembourg, with backing from US investors, is planning to offer Europe's first direct-to-home satellite-broadcast commercial TV with its $200-million Coronet system. The Coronet satellite, whose signal will reach as far as London and Stockholm to the north and Rome and Madrid to the south, will broadcast as many as 16 channels and in four languages.

Though it's not due to start operating before 1986, Luxembourg's satellite-TV venture already has virtually every other European government foaming at the mouth, for the Coronet system threatens to undermine state television monopolies—including some governments' plans to launch their own satellite-TV systems within the next decade. "Nearly 30 countries, including Russia and its East bloc allies," *Business Week* recently reported, have "protested Coronet's plans to the International Telecommunication Union in Geneva." Especially riled by the Coronet venture is the French government, which plans to start its own satellite-TV service in 1986.

The Coronet system is certainly in for a whole lot more pressure from national governments before it even begins operation. But if it succeeds, it could strike a powerful blow to state domination of European television.

availability, distribution, etc. But Trebach's specific proposal is perhaps less important than the unconventional wisdom that lies beneath it: the recognition that the war on drugs—which, for federal drug-enforcement efforts, alone, will consume $1.22 billion of taxpayers' money in fiscal year 1985—is not only futile but counterproductive. With decriminalization, Trebach contended, "the drug scene might be characterized only by the natural, usually peaceful. disorders of a democracy and not by terrorizing levels of crime and a war against the sometimes destructive personal habits of our neighbors that we cannot control."

DERAILING A BOONDOGGLE

Local politicians *love* rail mass-transit. From Los Angeles and Dallas to Detroit, Buffalo, and St. Louis, they are scrambling for federal money to build new rail systems. Goodness knows why. The last few years have seen the debut of several new systems, and without exception they, like their older counterparts, are disasters—a fact that is finally gaining recognition, if not among politicos and local newspapers, then at least in the national media.

In late August, *Business Week* published a cover story on the extravagant fashion in mass-transit systems—and extravagant it is. Consider the Metro system in Washington, D.C. "President Lyndon B. Johnson wanted the system to serve as an example for the rest of the country," *Business Week* sardonically noted. Metro was originally supposed to cost $2.5 billion, hardly a paltry sum; but it has already gobbled up about $6 billion, and only half the system has

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been completed. The Urban Mass Transportation Administration, which hands out taxpayers' money to these boondoggles, now estimates that the Washington Metro will cost another $6 billion to finish. And on top of capital costs, the system's annual operating deficit has doubled in five years, reaching $190 million in fiscal 1984.

Washington is not alone. Professor Jose A. Gomez-Ibañez of Harvard University found that the cost of a ride on Metro and two other highly touted rail systems of its generation—San Francisco and Atlanta—is four times greater than had been predicted. "If you look at the history of the systems built in the 1970s," he told *Business Week*, "they consistently overestimated patronage and underestimated both capital and operating costs."

It might ease the pain a bit if a lot of people rode the new systems, but typically they don't. Miami's Metrorail, for example, which began operation this summer, was supposed to have 100,000 riders a day by the end of its first year. After 3½ months of operation, the system had a grand total of 9,000 riders daily. And in San Francisco, reports Melvin Webber of the University of California, the rail system has drawn most of its passengers from bus lines that were eliminated when the subway came on the line.

One would think that with such an abominable record, new rail systems would be anathema to cities not already cursed with them. But no. There is a federal trust after which they lust. When Washington increased gasoline taxes two years ago, it devoted one cent of the five-cent-per-gallon tax to the trust fund that underwrites urban mass-transit programs. This year, the trust fund will get about $1.2 billion, and local governments are drooling to get their hands in the till.

To some extent, their motivation seems to be a Rotarian booster mentality gone mad. Typically, Minnesota governor Rudy Perpich told *Business Week* that a rail system would transform Minneapolis and St. Paul—which are tasteful, livable cities already—into "world-class cities." But there are apparently more-venal considerations, as well. As Gerald Miller of the Urban Institute put it to *Business Week*, "If you can get $2 billion from Uncle Sam, why not?"

A recent editorial in the *Wall Street Journal*, however, pointed out a good reason for cities to avoid the subway siren song. While the federal government puts up enormous amounts for *construction* costs for rail systems, it is not nearly so generous when it comes to *operating* costs. For example, the feds pick up the tab for 6.7 percent of the cost of running New York's subways, and in general federal handouts account for less than 10 percent of major rail systems' operating costs. The subsidies to run the things—because no politician in his or her right mind would endorse full-cost *pricing* of subway rides—must come from local taxpayers' pockets. Washington, D.C.'s white-elephant system now consumes 15 percent of the local government's revenues. And because of their rail system, three San Francisco-area counties now pay a half-a-percent sales tax.

Clearly, rail mass-transit systems aren't an easy ride, as the *Wall Street Journal* and *Business Week* indicate. Politicians at the local and federal levels would do well to heed their reports.

BLACKOUT OF A BAILOUT

It's not unusual for government pork-barrel programs to spend wildly until they approach insolvency. Nor is it

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unusual for them to beg for a bailout, wailing all the while about how national well-being hinges on their continued service (that is, spending). Unfortunately, it is unusual when a program doesn't get what it wants. But that may be the fate of the Rural Electrification Administration (REA), which since 1935 has been making loans to rural and other small utilities to bring electricity to rural areas.

The REA's purpose may seem noble. "Rural electrification" evokes images of benighted Alabama dirt farmers finally able to read their Bibles in the evening by an unshaded light bulb. The truth of the matter is often rather different. Only one percent of rural America does not have electrical service. And, as revealed in a recent article in *Reader's Digest*, the REA actually subsidizes electricity in some of the wealthiest suburbs in the country. Among the indirect beneficiaries are shopping malls, airports, country clubs, resort hotels, and in Nevada, as the scandalized *Reader's Digest* put it, "an infamous house of ill repute."

Because the REA's Rural Electrification & Telephone Loan Fund borrows money from the US Treasury at a market interest rate, currently about 12 percent, and then loans the money to utility co-ops at 5 percent interest, it's not much wonder that it is "in danger of having its interest payments to the Treasury exceed its interest collections from the utilities," as the *Wall Street Journal* recently noted. The paper added, "Such a situation, which could occur in a few years, would mark a first step toward insolvency."

What's a poor bureaucracy to do? Last year the REA went to Congress asking for a bailout—among other things, forgiveness of $7.9 billion in 40-year notes that the agency is required to start paying in nine years. Even though the Congressional Budget Office (CBO) warned that the total bailout package would increase the federal deficit by $10-15 billion, the rescue plan glided through the House last spring. Its path was undoubtedly greased by more than a half-million dollars that utility co-ops (some of the REA's biggest beneficiaries) contributed to congressional campaigns over the last five years via a "political action fund."

The REA bailout was expected to have just as easy a time in the Senate. Sen. Jesse Helms (R-N.C.), the taxpayer's friend, artfully shepherded the pork-barrel measure through the Agriculture Committee, which he chairs. But before the legislation could come to the Senate floor for a vote, a coalition of interests formed to oppose its passage.

Fred Smith of the Washington-based Competitive Enterprise Institute, who actively fought the bailout, told REASON that other bailout opponents included conservative senators such as Alan Simpson (R-Wyo.) and at least one staunch liberal, Howard Metzenbaum (D-Ohio). Among the outside groups lobbying vigorously against the bailout were the conservative US Chamber of Commerce (even though some of its outraged local affiliates called for resignation from the national body in protest), the libertarian National Taxpayers Union, and the liberal Environmental Policy Institute.

The opposition paid off when the bailout measure died for this year for lack of action in the Senate before Congress recessed for the November election. This is not a final victory. "It's likely to come up next year," Smith told REASON. "These battles go on and on and on." But he and his colleagues have already accomplished more than anyone might have expected earlier.

MILESTONES

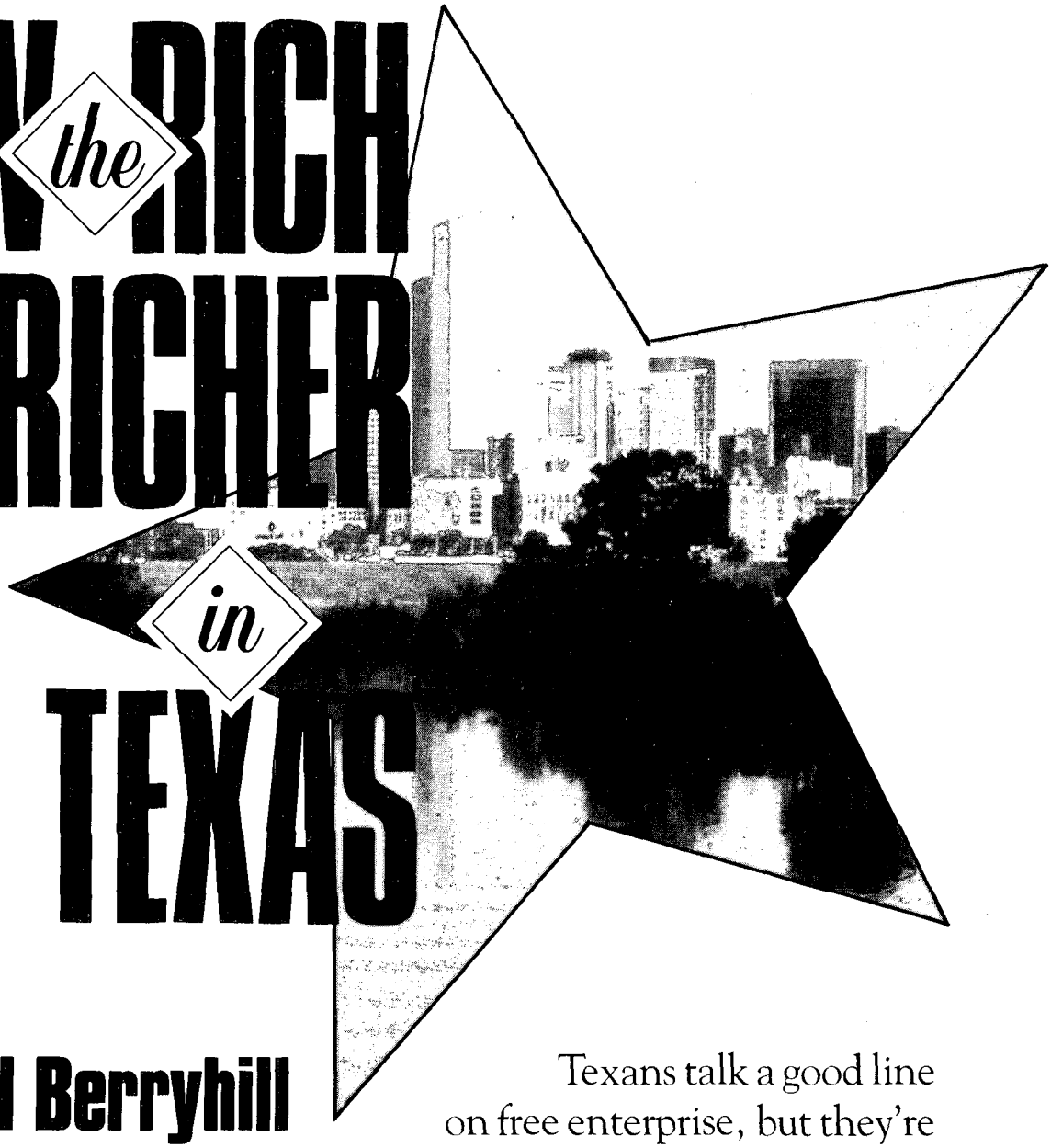
• *One-stop victory.* The Interstate Commerce Commission recently approved for the first time the merger of a railroad (CSX Corporation) and a barge line (American Commercial Lines). The *Wall Street Journal* hailed this as "an important step" for efficient one-stop shipping—one company offering a variety of transportation routes and modes.

• *Thumbs down on industrial policy.* When readers of the Small Business Service Bureau *Bulletin* were recently asked for their position on a national industrial policy, 80 percent of those who responded opposed the idea. The *Bulletin* goes to 50,000 small-business people throughout the nation, about 35,000 of whom are members of the private trade association. Some 950 readers responded to the survey.

• *Rebate liberation.* In the past, competition among insurance agents has been hindered by prohibitions in all 50 states against insurance agents rebating any of their commissions to customers. But in August, a Florida court ruled that the antirebate law there is unconstitutional, marking the first time such a state law has been struck down.

—ROBERT W. POOLE, JR.,
PAUL GORDON,
AND ERIC MARTI

HOW the RICH GET RICHER in TEXAS



By Michael Berryhill

Texans talk a good line on free enterprise, but they're falling all over themselves to subsidize everything from picante sauce to posh hotels.

If you were to take almost everything that is quintessentially Texan—if you were to pull your Lee bluejeans over the tops of your Tony Lama or Justin boots, if you were to dabble a tostado in a certain brand of picante sauce and wash down the fire with a cold Lone Star beer or even a Coca-Cola, if you were to drive your pickup on Michelin tires and spend the night in a motel in Muleshoe or the luxury San Luis Hotel in Galveston—you would be patronizing businesses that benefit from a runaway subsidy for the well-to-do cheerfully endorsed by many Texas political and business leaders who simultaneously talk up the virtues of free enterprise.

The jeans and the boots, the beer and the Cokes, the picante sauce, the tires, the parts for the pickup, and the hotel and motel rooms are brought to Texans by private enterprises that financed their businesses at interest rates two to five points below the market rate with the help of industrial development bonds (IDBs)—bonds that pay interest that is exempt from federal income tax. While most businesses finance new ventures and expansions the old-fashioned way—at the marketplace, where interest rates reflect the fact that lenders must pay federal tax on income their loans earn—Texas billionaires and millionaires, huge corporations like Exxon and Mobil and IBM, beer distributors, doctors, film studios, department stores, warehouses, office developers, banks, small-town newspapers, and hundreds of small manufacturers are using IDBs (also called industrial revenue bonds) to give them an edge over their competitors.

Who can blame them? Texas business people simply have joined a national

stampede for IDBs: all categories of private-use, long-term, tax-exempt bonds have grown phenomenally, from $6.2 billion worth issued in 1972 to $44 billion in 1982.

The principle of tax-exempt bonds is simple. The Internal Revenue Code exempts the interest paid on state- and local-government obligations from federal income tax. A school district, for example, needs to borrow money to build schools. It issues bonds yielding interest that is exempt from federal taxes. Because the bond buyer does not pay federal income tax on interest earned on the bond, he will accept a lower rate of return than if he had to pay taxes on the income. The school district borrows money more cheaply than private business would (in recent years, from three to five percentage points off prevailing interest rates). Schools are built, and local taxpayers are spared the burden of having to pay commercial interest rates.

In the name of "economic development," industrial develpment bonds enable private businesses to get the same cheap credit local governments enjoy. A private borrower asks a government or quasi-governmental authority for permission to borrow from a private lender under the terms of the IDB program. If permission is granted, a bond attorney (for a fee, of course) certifies that the transaction meets state, local, and federal requirements, and the bonds are approved. No tax money is risked: if the borrower defaults, the private lender must absorb the loss.

When Congress revised the laws authorizing states to approve private-use IDBs, in 1968, it created several categories of "small issue" bonds—for private multifamily housing, student loans, sports facilities, convention facilities, airports, harbors, mass transit, sewage and solid-waste disposal, utilities, and pollution control. In addition, Congress let states authorize other small issues to private interests with a limit of $5 million per issue, raised to $10 million in 1978. Believing fully in the rights of local governments, Congress decided to let them decide what the "public purposes" of such bonds should be.

State and local governments quickly responded: Public purpose is anything we want it to be. Industrial development bonds are being used to build shopping centers, restaurants, department stores, and hotels. Many have simply been routine business loans for some major enterprises: According to Rep. Jake Pickle (D-Tex.), the national nursing-home chain Beverly Enterprises has used $165 million worth of IDBs, Wal-Mart discount stores have received over $100 million through IDBs, and $210 million in IDB financing has gone to K-Mart. The Norfolk Port and Industrial Authority of Virginia even approved an IDB application to finance a $2.5-million Mitsubishi jet for a psychiatrist.

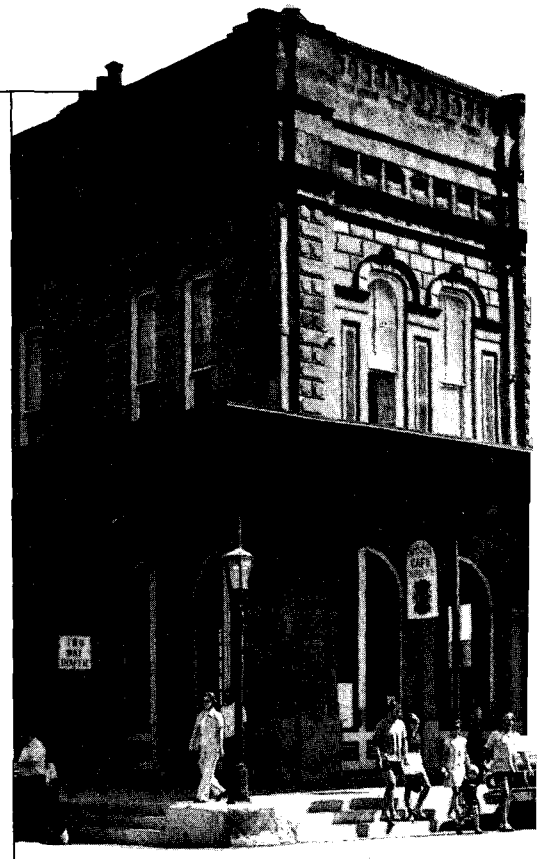
Indeed, small-issue IDBs are not so small. As more and more states have passed legislation enabling local governments to authorize IDBs, use of the bonds has mushroomed. According to a 1983 House Ways and Means Committee study, small-issue IDBs amounted to only $1.3 billion in 1975. In 1982, they amounted to $13.7 billion.

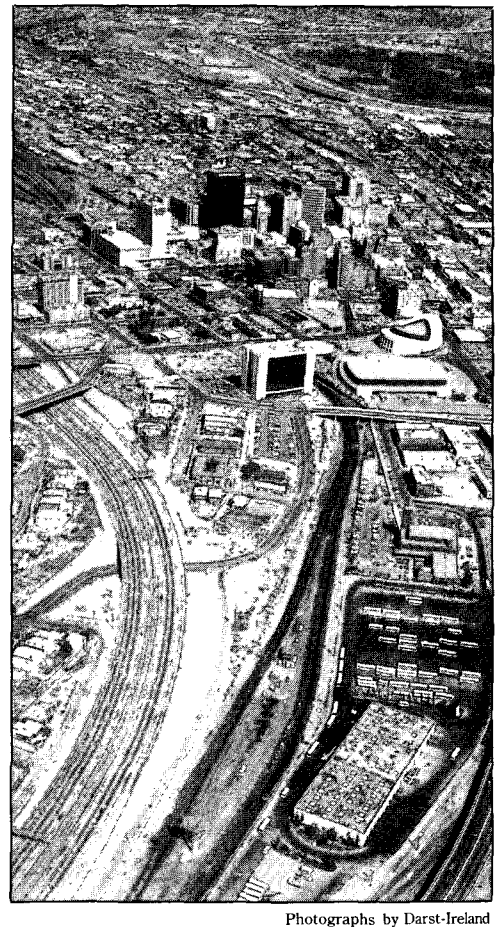
The wild growth of IDBs has led Congress to try to pull in the reins. For the most part, the legislators are concerned about the amount of federal revenue that is forgone through IDB tax exemption. But Representative Pickle, a member of the House Ways and Means Committee who has helped lead the effort to limit the amount of IDBs states may issue, points to another concern, as well. Last fall, he warned the National Association of Bond Lawyers that since 1979 the private sector has been borrowing more federally tax-exempt money than *all* state, local, and county governments combined. With the private and public sectors competing in the same bond market, Pickle noted, the cost of borrowing to build schools, roads, sewers, and water supplies—the traditional "public purposes" of tax-exempt bonds—has escalated.

"Five years ago, the interest rate on tax-exempt bonds was roughly 65 percent of the interest rate on taxable bonds," Pickle told the bond lawyers. "By last year [1982] it had risen to approximately 85 percent of the rate on taxables. With each new private purpose issue, the value of traditional tax-exempt bonds is further eroded."

Who pays for the increased costs of government while some businesses get low-cost loans? The taxpayers, of course, who end up paying for the higher interest rates for traditional public projects. And this includes those business people who, out of ignorance or principle or lack of political influence, *don't* borrow through government.

Most insidious, however, is that IDBs distort the marketplace in two ways. On the one hand, businesses ordained by the government to receive below-market-rate IDB financing have an advantage over their not-so-lucky competitors. On the other hand, investment may be directed to activities that without IDB

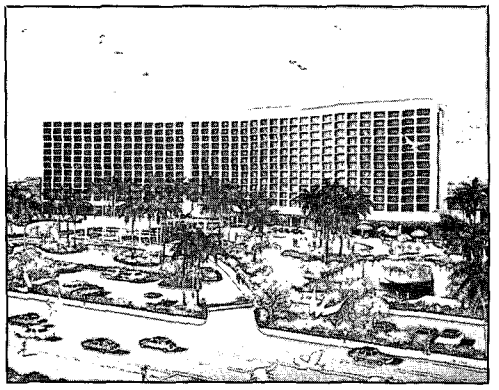




One wealthy developer used industrial development bonds to buy and refurbish buildings on Galveston's Strand (above) and $10 million worth to build the deluxe San Luis Hotel (right). In El Paso (below), IDBs were approved for the construction of a Tony Lama boot plant (below right).

Photographs by Darst-Ireland

Photograph
courtesy Hamilton Associates, Inc.



Photograph courtesy the San Luis Hotel

financing would not be profitable. But why should government try to usurp market forces? The economic price of either sort of distortion is hard to calculate—but is nonetheless real.

Yet for mayors, city council members, urban planners, and other local politicians and bureaucrats, industrial development bonds are an exquisite mechanism to make them look like effective servants.

"By 'sprinkling holy water' on an IDB project," says Representative Pickle, "the city council or county government can take credit for the construction of a new plant facility, shopping center, or hotel/motel. Economic feasibility studies or cost analysis are rarely required."

So while the system demands that enthusiasm for IDBs be couched in terms of "economic development," the bonds are in reality a perfect trysting place for local authorities and business people.

The IDB bonanza has hit virtually every state, but Texan bond fever has a certain ironic twist: while the Lone Star State's popular image is one of rugged free enterprise, Texas is outdoing nearly every other state in subsidizing businesses through IDB financing. It is second only to California in issuing private-use IDBs, having authorized $4.4 billion worth of the tax-free bonds during the last four and a half years.

Texas got off to a late start—it was the 47th state to approve IDBs for private businesses—because the state constitution forbids cities to lend their credit or make any grant of money or thing of value to individuals or corporations. In 1971, three years after Congress had approved small-issue, private-use IDBs, a Texas attorney-general's opinion said that the state constitution prohibits such IDBs for Texas.

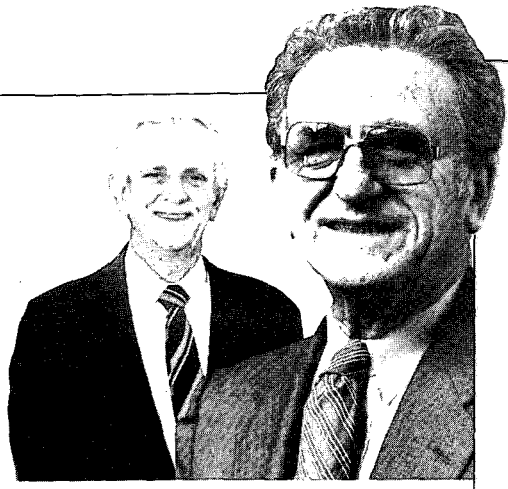
Texas bond attorneys and businesses watched the rest of the nation indulge in a bond spree and tried twice to get the voters to pass a constitutional amendment permitting the bonds. After the voters turned the amendments down in two separate elections, a bond attorney at the gigantic, politically well connected Houston law firm of Vinson and Elkins—whose partners now include Republican presidential hopeful Sen. Howard Baker—saw an opening: Instead of cities sprinkling holy water on private developments, why not create nonprofit "economic development corporations" to do it? Each such corporation would be controlled by a governmental entity—a city council or county commissioners court, for example. Council members, commissioners, and their appointed representatives could sit on the development corporation, and the corporation's activities would be subject to the approval of the parent government. The governmental bodies, in turn, would be insulated from the constitutional question. The result: As official state documents reveal, Texas bond attorneys have raked in $25 million in bond fees since passage of the Development Corporation Act of 1979, roughly half of those fees having gone to a single law firm: Vinson and Elkins.

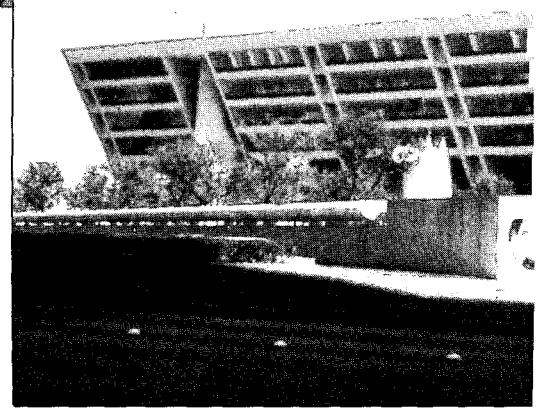
The act created the Texas Economic Development Commission to preside over the various development corporations. The commission promptly praised the act as the "most significant legislation affecting economic development in Texas passed in the last 20 years." There is nothing new about private-use IDBs, the commission noted—they are being used widely, and in every one of Texas's neighboring states. "The advantages are many," enthused the commission, whose job is to oversee use of IDBs throughout the state. "Rural communities have access to long-term financing for large projects enabling them to compete with larger communities as well as towns in other states. Bonds can also be effectively used in larger cities to provide incentive for locations in certain neighborhoods with high unemployment rates."

In effect, the 1979 act said that private employment is a public purpose. It held that "the present and prospective right to gainful employment and general welfare of the people of this state require as a public purpose the promotion and development of new and expanded industrial and manufacturing enterprises." It also declared that financing such enterprises is in the general interest and that Texas was becoming unable to provide "additional and sufficiently sizable first mortgage loans"—even though in 1978 the state had experienced *10 years* of booming prosperity that was the envy of the rest of the country.

Texas quickly made up for its late start in the IDB spree: by 1983, it was surpassed only by Pennsylvania and New Jersey in passing small-issue, private-use bonds that fit the vague category of creating jobs. In May 1983, the Congressional Budget Office reported: "Among the states, the most dramatic growth in the use of small issues occurred in Texas. In 1982, its third full year of

operation, the Texas Industrial Authority reported sales of small issue IDBs in excess of $1.2 billion, a 94 percent increase over 1981 (and a 470 percent increase over 1980)."





Industrial development bonds are hotly debated at Dallas's city hall (right). Mayor Starke Taylor (top left) promotes IDBs, but councilman Max Goldblatt (top right) calls them "socialism for the rich." Multimillionaire developer Trammell Crow (far right), for instance, has received millions of dollars' worth of the bonds.

To survey the Texan IDB scene, one might begin by sending $10 to the Texas Economic Development Commission—which I recently did—for two computer printouts documenting the state's IDB issues: the amount of each issue, its purpose, the borrower, the issuer, the bond attorney (and fee), the authorizing entity, etc. As you inspect these thick, oversize documents, with their long lists of names and dollar amounts, a number of questions might start to arise.

For instance, it would be difficult to determine, from these documents alone, just how effective has been the use of IDBs to create new jobs. In El Paso, for example, jeans and boots manufacturers got bonds ostensibly to create hundreds of jobs—though how many went to the 16,000 Mexicans who daily cross the border from Juarez is hard to tell.

I recently posed that question to Dwight Culver, director of finance for the El Paso Industrial Development Corporation, who said it's probably a small minority of the jobs that go to the Mexicans. El Paso has approved IDBs for 25 projects totaling $170 million, employing 3,600 people, Culver told me. But, he said, informal surveys by the corporation reveal a wide range of discrepancies between the job estimates on the bond applications and the jobs that eventually materialize. One plant might estimate 100 new jobs and actually create 65; others create more than estimated, Culver said, and some have gone broke. A Justin boot plant, for instance, had to shut down when the urban cowboy craze faded away, while a plastic injection molding company has come back for seconds and thirds on IDBs. "Like all business ventures," Culver said, "some don't make it and others go beyond all expectations."

Not only do the "development corporations" appear to have no special ability to pick winners and losers, but they also seem to have curious definitions of the terms they use to justify private-use IDBs. In El Paso, for instance, with its cheap labor and high unemployment, the city's industrial development corporation emphasizes "manufacturing" among IDB uses. Nevertheless, one of the largest bank-holding companies in Texas, Houston-based Texas Commerce Bancshares, got in on El Paso's bond action earlier this year, with $1.7 million in IDB financing for an expanded building and drive-in facilities. The project created four new jobs.

A similar situation turned up in Austin. While one of Austin's two development corporations has helped out "needy" manufacturers like IBM and Coca-Cola—as well as, among others, makers of bovine serum and hamburger buns—the city's other industrial development corporation hasn't been industrial at all. During the last four years it issued $82 million worth of IDBs for 19 projects: four hotels, a furniture showroom, a parking garage, printing equipment, and 12 office and retail buildings. And the industrial cities of Beaumont and Port Arthur issued bonds for such industrial endeavors as shopping centers, hotels, office buildings, and banks.

With so many authorities empowered to approve IDB issues—more than 200 throughout the entire state—developers can shop the various development corporations for a deal. In Houston, for example, the Harris County commissioners court in 1982 turned down a request for $14 million of IDBs to build a Sheraton hotel at Houston's Hobby Airport after two hotel owners at Hobby protested. They pointed out to the county commissioners that their hotels were running half empty because of the downturn of the oil economy. They didn't think it was fair for government to give a potential competitor a low-interest loan while they borrowed in the marketplace.

No problem—a year later the hotel developer, G. Phillip Albright, went to the *city's* industrial development commission and got $20 million worth of IDBs for the project. (Because the hotel was to serve the airport, it was exempted from Congress's $10-million limit on small-issue IDBs.) Albright told a *Houston Post* reporter he needed the tax-free bonds because he couldn't get conventional financing—bankers didn't want to invest in another hotel when the city had an oversupply of hotel rooms.

So easily do IDBs flow—at least to the right parties—that on the same day he voted for bonds for Albright's hotel, Houston city council member Ben Reyes won approval for $2 million worth of bonds from the Harris County commissioners court to enable a company he heads to buy a lumberyard. There was little public reaction.

A fundamental purpose of IDBs is to enable businesses to finance projects that otherwise wouldn't be done. Yet some of Texas's richest business people get IDB financing. In the Dallas area, the world's biggest real estate developer, Trammell Crow, quickly saw the value of the tax-exempt bonds. In 1980 he got $3.5 million to build a warehouse and distribution center in suburban Carrollton. A year later, he used $9.4 million worth of IDBs to build a film and television studio in the posh Las

Colinas development of Irving. Seventy-year-old Crow, a folksy, self-made multimillionaire who praised the spirit of free enterprise when the Republican national convention came to town this year, does more than a billion dollars' worth of real estate deals a year—but still goes to Texas development commissions, hand extended, for cheap credit.

Crow's company got the bonds authorized not through any elected government but through the Trinity River Authority—which, under the terms of Texas's 1979 Development Corporation Act, qualifies as an "other political subdivision." The TRA, a state agency whose directors are appointed by the governor, was first created in 1955 to fulfill the long-cherished north Texas dream of "Port Worth," a scheme to make the Trinity River navigable. After voters turned down revenue bonds for the project in the '70s, the TRA turned to other projects in its huge jurisdiction, which encompasses Dallas, Forth Worth, and a swath of land around the river down to the Gulf Coast. Since 1980, when the first IDBs were permitted in Texas, the TRA has approved approximately a quarter-billion dollars' worth.

In the city of Dallas, multimillionaire Ray Hunt, son of the late right-wing billionaire oilman H. L. Hunt, persuaded the Dallas city council to declare a high-rent block in downtown Dallas "blighted" so he could use $1.5 million worth of IDBs to build an underground parking garage with a park on top. Dallas has issued only $42 million worth of IDBs, in part because unlike those issued by the TRA, IDBs approved by the South Dallas Industrial Development Corporation are subject to city-council debate. While developer-mayor A. Starke Taylor, Jr., talks to the press about building a "partnership" of government and business, South Dallas councilman Max Goldblatt, a septuagenarian hardware-store owner, calls the bonds "socialism for the rich."

Meanwhile, the city planning staff continues to work on plans to reverse Dallas's tendency towards sprawl by encouraging denser development, especially downtown. The keystone of this plan is a ritzy $110-million downtown project, Town Lake, to be built with outright federal grants (Urban Development Action Grants, via the Department of Housing and Urban Development), "tax-increment financing" (a twist to be described later), and—more IDBs.

All of these plans may fall apart in 1986, when small-issue IDBs are scheduled to expire under the Tax Equity and Fiscal Responsibility Act of 1982. Two years, of course, gives bond attorneys, mayors, governors, and others with vested interests in IDBs plenty of time to rally their forces to preserve the bonds. Meanwhile, governors are going to have to sort out a cap on IDBs, placed by Congress this summer, limiting states' annual IDBs (small-issue and other) to $150 per capita—or, for Texas, about $2.3 billion worth for 1985. And that limit will drop to $100 per person in 1987. (Certain types of projects—including housing and mass transit—are exempt from the limit, as are sparsely populated states, which may issue up to $200 million per year in IDBs.)

Congress's annual limit on total IDB issues merely exacerbates a fundamental problem with the bonds: because politicians and bureaucrats decide who gets cheap credit and why, the process by necessity is a political one—not a business one. And with a limit on the bonds, the politicization of IDB approval is guaranteed to get even messier. In Texas, the competition among businesses will be especially keen, because Gulf Coast industries have been big users of IDBs for pollution-control equipment, a category exempt from Congress's $10-million limit on individual private-use issues. Pollution-control equipment runs in the tens of millions of dollars yet provides few new jobs. And you can bet the oil companies, which exercise formidable political clout in the Lone Star State, will scramble for their share.

There is one further complication. As in 1971, the use of IDBs in Texas may again be ruled unconstitutional. Earlier this year, the Texas Economic Development Commission, the state agency overseeing IDBs, asked state attorney-general Jim Mattox for an opinion on the legality of some rule changes it had made. Mattox responded with a letter questioning the state constitutionality of the whole system. The commission withdrew its request, so no opinion has been made public—but the constitutional issue sits like a land mine waiting to be tripped.

Industrial development bonds are not new, supporters are fond of pointing out. The first were issued in the 1930s in Mississippi to support a textile mill. The rationale: to provide jobs in a state that had raw materials—cotton—but lacked the means to make something of it.

Government and business in America, it's worth remembering, have always been intertwined. General-obligation bonds were used to build the Erie Canal. The federal government gave the railroads millions of dollars' worth of land as a financial incentive to lay track. The railroads made the settlement of the West possible, a definite "public purpose"—unless, of course, you were an Indian.

The "public purpose" of IDBs is jobs. What makes the bonds so attractive to local governments is that they appear to cost nothing. Local governments can, in Representative Pickle's phrase, sprinkle holy water on a transaction between a private borrower and a private lender.

Photograph by
Bob Chamberlin/Los Angeles Times

No tax money changes hands.

The "new" jobs, however, may be a misnomer. What IDBs have done is simply move jobs around the country. If a plant moves from Ohio to Texas, the jobs lost in Ohio are not counted when the Texas Economic Development Commission figures the benefits for Texas.

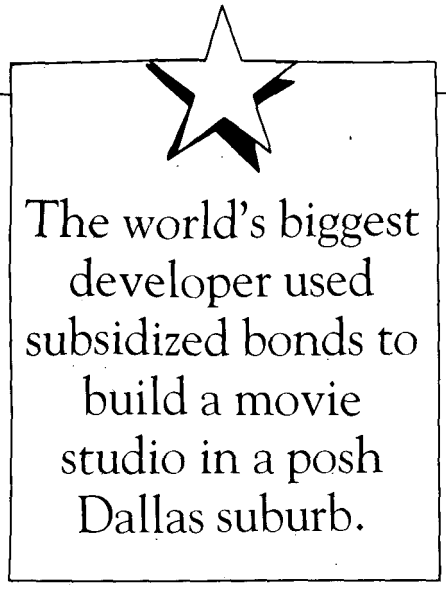
Further, most of the companies that qualify for the bonds are reviewed for financial solvency, at least briefly by the governments authorizing the bonds, and in depth by the lending institutions that are risking their money. In many cases, IDBs are used by businesses that were going to expand anyway. Does anybody doubt that Coca-Cola or Sheraton or Trammell Crow can find money to do a deal? Nobody wants to lend to a loser. So why should a winner get low-interest loans?

For a while, Dallas even considered a "but for" clause by which a business would have to prove that but for low-interest IDB financing, the deal could not make a profit. That would only push government further into the peculiar position of judging the soundness of individual businesses—an activity better left to the marketplace, where investors and other economic players make those judgments more reliably.

Most of the private-issue IDBs in Texas have gone to manufacturing concerns, making everything from oilfield equipment to hamburger buns for fast food chains. But some states and cities wondered why manufacturing should be the sole public purpose for these bonds. Florida, for example, is a tourist state, not an industrial state. It wanted hotels. A job as a busboy or room clerk or maid is as important to some states and cities as a job manufacturing widgets.

That's how the island city of Galveston, Texas, came to declare itself "blighted" in 1981. From 1970 to 1980, while most of Texas was booming, Galveston actually lost population. A tenth of the population lived in government-subsidized housing. Unemployment was high. Moreover, a substantial portion of the city's real estate is occupied by state entities, such as the University of Texas medical complex, that pay no property tax. Much of the housing is old. The middle-class people who work on the island live on the mainland, where housing is less expensive. The work force that lives on the island is untrained.

By declaring much of the city blighted, Galveston could authorize IDBs for *commercial* development, such as hotels and retail outlets. The Development Corporation Act of 1979 said that in order to qualify for commercial-development IDBs, blighted areas should have "a substantial number of substandard, slum, deteriorated, or deteriorating structures" and a "high relative rate of unemployment." And it left it up to the cities to define those standards.



The world's biggest developer used subsidized bonds to build a movie studio in a posh Dallas suburb.

While Galveston may have fit a commonsense definition of *blighted*, other Texan cities have actually declared expensive sections of downtown real estate blighted so that developers might get IDBs. In February of this year, the *Dallas Times Herald* reported that "more than any other city, Austin has used the blighted area law for individual projects, calling 13 hearings since February 1982 to designate 20 blighted areas, most of them for single buildings or lots."

Acres of bald prairie on the edges of cities and towns, where neither a dilapidated building nor an unemployed person could be found, have also been designated as blighted. And when the Texas Economic Development Commission began tightening the definition of blight last winter, several Texas cities declared themselves blighted to beat the deadline of the tougher regulations. One small-town merchant complained to the *Herald* about facing competition from a million-dollar Wal-Mart built with IDB financing: "There are some things that are legal that ain't right."

In Galveston, IDBs are regarded as the savior of the city. Thanks to IDBs—and the growth of nearby Houston—Galveston has a building boom of hotels. A decaying but beautiful nineteenth-century street, the Strand, has been renovated and is becoming a tourist attraction. The Galveston Development Corporation, in close cooperation with the Chamber of Commerce, has approved more than $128 million worth of IDBs for motels, hotels, office buildings, a Wal-Mart, and shipyards. Roughly $29 million worth of those bonds has gone to one of the world's richest men, Houston oilman and developer George Mitchell. Mitchell has bought several nineteenth-century buildings on the Strand and is restoring them with the help of IDBs. His luxury hotel on the seawall, the San Luis, opened last spring—built with the help of $10 million in IDB financing, the maximum allowed for this type of project.

The unskilled jobs created by hotels seem perfectly suited for Galveston's work force, Mayor Jan Coggeshall recently told me. And she worried that if under the new cap IDBs are apportioned by population, Galveston, a city of 60,000, would get very little. If the bonds are genuinely designed to help economically distressed parts of the country, Galveston qualifies, Coggeshall insisted.

But would IDB-financed investments have happened anyway? Mitchell's representatives have repeatedly said that their Galveston investments, especially the restoration of historic buildings on the Strand, couldn't have happened without the low-interest rates provided by the bonds. Yet a building boom of beach houses continues on West Beach—an area adjacent to Galveston—a boom that seems inevitable given the burgeoning growth of nearby Houston. But Galveston's authority to collect taxes is restricted by a Proposition 13–style limitation, and the city is desperate for any improvements to the tax base. So the urge is strong to give developers what they want.

Mayor Coggeshall has not gone along with all of the demands of the developers and has voted against some of their bids for favors. The real problem with IDBs, she told me, is equity: How do you make economic decisions that affect everybody in a fair way? The answer to that question—that governments *can't*—becomes clearer the deeper one digs into the IDB story.

The much larger city of Dallas has actually approved of far fewer bonds than tiny Galveston, $42 million worth compared to Galveston's $128 million. Only a few developers have been active in Galveston. In Dallas developers are, as they say, thicker than fleas on a hairy dog. While Houston has made its money in energy, Dallas makes its money in banking, insurance, and real estate—prime candidates for a commercial IDB scramble.

Industrial development bonds would

seem tailor-made for Dallas, a city that prides itself on consensus politics and flourishing development. Yet Dallas has been slower than others to join the IDB craze.

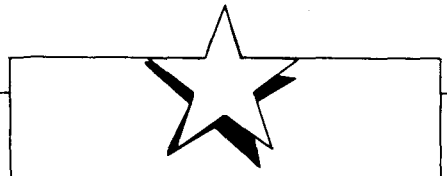
Indeed, ever since Texas's 1979 legislation permitted private-use IDBs in the state, both Dallas newspapers had seemed to feel there was something wrong with IDB projects and warned city council about overusing them. At the same time, a sense of guilt—and perhaps a sense of opportunity—about the underdevelopment of predominantly black and brown Dallas kept growing among the city's civic leaders.

Unlike Houston, which can annex huge amounts of territory, Dallas is virtually landlocked. If it is to grow economically it must compete with cheaper land in the "mid-cities" area, between Dallas and Fort Worth. South Dallas looked like the last frontier.

So perhaps sensing that all hell could break out if everybody tried to get in on the act, Dallas restricted the use of IDBs to the southern half of the city, a huge area that the city council declared blighted in 1981, freeing it for the commercial use of IDBs. But this hard-line attitude is worth more on paper than in practice.

Not all of South Dallas is really blighted, though the southern half of town is comparatively poorer than the expanding North Dallas, a largely white, middle- and upper-middle-class area. Most of the IDBs gravitated to Southwest Dallas. Technically in the region described as South Dallas, Southwest Dallas is actually a successful, thriving, new suburban area that is gradually spreading west, over wheatfields and cow pastures, towards Fort Worth. It has a small but prospering municipal airport, called Redbird, and it was in that area that developers, following market forces, wanted to invest.

Southwest Dallas was so attractive a place for investment that investment banker Randy Evans proposed building a strip shopping center across from Redbird Mall. In February 1983 Evans told the *Dallas Times Herald* that he needed $5.5 million in low-interest IDB financing in order to build the center. The reason? Land prices were too high. Cheaper credit would make or break the deal. The tax-exempt bonds had reached a new rationale: instead of being an incentive for investment in blighted areas, IDBs were being viewed as leverage for a deal in an expensive area. After several store owners in the Redbird area complained about the unfairness of giving cheap credit to the center's developers, the city council killed the project despite the city staff's favorable recommendation.



"There are some things that are legal that ain't right," complained one small-town merchant.

One of Dallas's toughest battles over IDBs—and one that ultimately revealed the city's yes-and-no stance on the bonds—revolved around Wynnewood Bank of Oak Cliff, a modest but relatively prosperous section of South Dallas across from the Trinity River. Wynnewood had planned a new facility for some time, and after it had obtained interim financing for construction—and after construction actually began—its application for $2.89 million of IDBs was approved by the city planning staff and the Dallas Industrial Corporation. The new facility promised four new jobs.

The official opening of the new bank was in April 1984, yet it was May before the IDB application made it to the council for final approval. Under questioning by outspoken maverick city councilman Max Goldblatt, the bankers admitted that they were currently open for business, had hired no new employees, and had not sought permanent financing because they were counting on the bonds at a lower rate of interest.

Somehow the idea of providing low-interest financing to a bank for a building that was already completed did not appeal to a majority of the council. The council postponed the vote and asked the city staff to provide background on those projects already approved by the development corporation and on the standards used for approval.

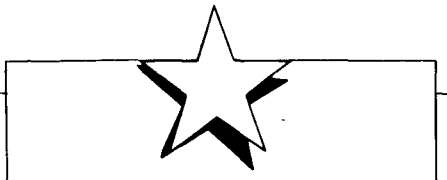
Meanwhile, in Washington, the House Ways and Means Committee was hammering out the compromise that put a cap on the amount of IDBs each state can issue. In Austin, the state capital, the Texas Economic Development Commission was drawing up new rules that defined blighted areas as those where 25 percent of the buildings are substandard and the unemployment rate is one and a half times the state average. Bond attorneys, of course, were urging the commission to leave things the way they were.

The Dallas city council decided to get firm with IDBs: the bonds would be considered only for areas eligible for federal community development grants—which is all of the commercially zoned real estate in South Dallas except the Redbird area—and the area defined by the federal Department of Housing and Urban Development in 1983 as eligible for Urban Development Action Grants. That adds up to 243 "depressed" acres that include Ray Hunt's multimillion-dollar Reunion Center complex, the new Dallas city hall, the Farmer's Market (which did $100 million worth of business in 1983), as well as the poor communities around Fair Park and the open flood plain of the Trinity River. The council also voted that it would not "grandfather" $32 million worth of IDBs already in the pipeline, but would look at these projects one at a time and vote on their individual merits under the new guidelines.

When Wynnewood Bank again came up for consideration earlier this year, Councilman Goldblatt pointed out that the owner of Wynnewood Bank, Tom Ewers, had already been involved in several IDB deals. In order to build the new bank, Ewers had sold his old building to a group of black investors who used $1.25 million in IDB financing for the purchase. And just to make the deal easier, one of Ewers's other banks, the Bank of Arlington, bought the bonds. Ewers had also been a partner in a deal that built a commercial mail center with $1.2 million of IDBs. Goldblatt also pointed out that Wynnewood was hardly in a blighted area: the area's unemployment rate was 3 percent, the lowest in the city.

Two weeks later, on June 20, the city council approved the Wynnewood bonds by a 6-5 vote and eventually passed all the bond issues in the pipeline, including a $4-million office-warehouse project for the firm of Watson and Taylor—Taylor in this case being Mayor Starke Taylor's son. (The firm has since withdrawn the project.) So much for the city's new firmness on IDBs.

Dallas's downtown parking saga provides a further illustration of how business and government can pervert the use of IDBs. In February 1983, Ray Hunt's Woodbine Development Corporation had been able to get a single block of downtown Dallas—where real estate sells for $100 a square foot—declared blighted so



One developer got a single city block — where real estate sells for $100 a square foot — declared "blighted" so that he could get a subsidy to build a parking garage.

that Hunt could get $1.5 million worth of IDBs to build a parking garage next to a historic building he was refurbishing.

The city staff, too, had grand plans. It was busy developing a report on a parking "crisis" in downtown Dallas and in November 1983 urged the city to ring the central business district with parking garages. Even the editorial writers at the *Dallas Morning News*, who had earlier warned about overuse of IDBs, endorsed the idea as essential to downtown growth.

Picking up the scent of cheap financing, the owners of the multimillion-dollar Plaza of the Americas said they wanted $14 million worth of IDBs to build a downtown parking garage, promising to try to build apartments on top of the garage. They may well have read in the June 13, 1983, *Dallas Times Herald* about a 72-page city planning document. The *Herald* reported that city planners wanted to reshape Dallas from a sprawling, thinly settled, automobile-dependent city into a more densely populated city with downtown housing. This planning was to be achieved by more stringently regulated development and "partnerships" between government and business. City Manager Charles Anderson, citing parking as Dallas's number-one problem, endorsed Plaza of America's request.

City planners were so eager to get into the parking business that in December 1982 they had persuaded city council to commit $16.5 million for a city parking garage in the new downtown Arts District surrounding the Dallas Museum of Art. The garage would be built by a private developer and operated by the city. The costs would be paid from leasing fees, to average $125 a month.

Private parking operators downtown began to see what the Dallas "partnership" of business and government was all about: the city was about to go into the parking business, and if it couldn't get enough customers at $125 a month (a fee that was generally considered too high by market standards), the city could use tax money to make up the deficit. It was also willing to give an advantage to the operators' competitors with IDB financing.

In a December 1983 statement to the city council, George Roberts, an officer of the private firm Classified Parking, pointed out that private industry had delayed building parking garages downtown because of the threat of government competition. He also pointed out that the likely fee in the Arts District would be $25 a month for parking space rather than $125, and that he and the other private operators doubted the city manager's claim of a severe parking shortage. The council is now studying the matter.

The biggest hope of Dallas city planners, developers, and like-minded politicians is Town Lake, a project to dam the Trinity River and create a shallow (8- to 10-feet-deep), three-mile-long lake south of downtown Dallas. Town Lake has always been envisioned by proponents as a developer's paradise, with sailboats, hotels, high-rise apartments and condominiums, and commercial buildings springing up like mushrooms after a rain. It has been envisioned by some environmentalists as a cesspool that would need constant dredging.

In 1978 voters rejected a revenue-bond package to provide financing for the $110-million project. In 1983 a South Dallas economic task force revived the Town Lake project once again. Consultants have called for a "tax increment" financing scheme, in which tax revenues from the increased property value of the project are funneled to a development commission, which may turn around and subsidize the project. The eyes of developers are already glowing.

Developer Don Bodin of Pawnee Corporation—who had already launched a Sheraton hotel in Galveston with $10 million in IDB financing—was approved for $10 million more of IDBs by the Dallas city council to start a $150-million hotel-office complex on property adjacent to the Town Lake site. But since companies are limited in the amount of IDBs they can apply for, Bodin could probably get $30-$40 million worth of bonds only by dividing the project up and bringing in other partners. Bodin has withdrawn his IDB application and has found conventional financing—a clue to the necessity of IDBs in the first place.

Dallas planners have also won an outright federal subsidy for Town Lake. In 1983, the land around the proposed lake was declared a "pocket of poverty," qualifying it for Urban Development Action Grants, although the undeveloped land lacks either the unemployed or the buildings traditionally identified with such aid. And under congressional legislation passed this summer, developers will have to choose between UDAG or IDB financing.

Despite the city's free-enterprise boosterism, it appears that few people in Dallas question the propriety of involving government in so many business projects. The *Dallas Times Herald*, which over the years wrote several editorials warning about the overuse of IDBs, endorses their use for Town Lake if environmental concerns can be cleared up. And though the *Dallas Morning News*, formerly one of the most staunchly conservative papers in the nation, has sounded warnings, the editors appear unable to make up their minds about principles.

The old Dallas used to talk about free markets and free enterprise while limiting the role of government. The operative word of the new Dallas is *partnership*, but the unanswered political question is: If there is only so much of the business-government partnership to go around, who decides how to cut up the pie, and how is that pie going to be distributed?

Bond attorney Ray Hutchison's law firm has done the legal work on about a half-billion dollars' worth of IDBs throughout Texas since the bonds were first issued in 1980—collecting total fees of about $3.2 million—including a good part of the $42 million worth issued by Dallas. Hutchison is former state Republican chairman of the most Republican city in Texas. His wife, Kay Bailey Hutchison, chairs the advisory board of...the Dallas Industrial Development Corporation.

When I talked to him recently, Hutchison was refreshingly candid in admitting

that IDBs make him uncomfortable. Though he lobbied hard throughout 1983 to keep Dallas's airports and mass-transit facilities eligible for IDBs (he is the attorney for the Dallas Area Rapid Transit), he is suspicious of using the bonds for pollution control, pointing out that companies are required by federal law to install the devices anyway. If the bonds are to be used, he says, they should be used to develop genuinely blighted areas.

When I asked Dallas city planner Ray Kuchling about the problems of sorting out the proper use of IDBs, he conceded that Dallas has had such problems, but he contends that new city standards are the most stringent in Texas. And he echoes the sentiments of the 1979 legislation that if everybody else uses the bonds, Dallas has to use them, too. "I can't use a squirt gun when everyone else has a .38," Kuchling told me.

By everyone else, Kuchling means not only other states, but suburban towns in the area competing with Dallas for new business. In Dallas, to get IDB approval for a commercial use, an applicant now has to pass through tougher restrictions, including a city-council meeting—and some council members are beginning to doubt whether the bonds are in the spirit of free enterprise.

Compared to the city of Dallas, getting IDBs from the nearby Trinity River Authority is a piece of cake. While Dallas has approved a total of $42 million worth, the TRA has approved *$250 million* of IDBs, many of them in Dallas and Fort Worth, with scarcely a hint of controversy. Most of the projects are manufacturing concerns that can be scattered anywhere in the authority's huge jurisdiction. When the 1979 Texas legislation to permit IDBs was passed, some legislators tried to restrict bond-approval authority to political subdivisions, excluding quasi-governmental appointed boards such as river authorities. They failed.

As a result, the Trinity River Authority has approved more bonds than any other agency in Texas except Houston's Port Development Corporation (which can approve huge issues for businesses concerned with harbors, one of the explicitly favored public purposes in the federal legislation). The TRA had originally intended to use IDBs for development in rural areas of the Trinity watershed, the TRA's public affairs chief, John Jadrosich, recently told me. But, he said, most of the projects have gone into urban areas of North Dallas and Forth Worth. This is scarcely a surprise, since, generally, only projects that would succeed *without* IDBs are eligible in the first place—projects that will succeed are going to be developed where the market is strongest, not where it is weakest.

It was the TRA, for instance, that helped Trammell Crow build his Las Colinas film and TV studio—admittedly a risky venture, but where's the free enterprise that Crow and an army of other Texan "free market" boosters pride so much? Thanks to the TRA's generosity with IDB issues, dozens of small manufacturing companies that probably would have located in the Dallas–Fort Worth area anyway have happily taken advantage of IDBs.

While most development corporations will let any qualified bond attorney agreeable to both parties do the legal work to certify its deals, the TRA has just one firm—McCall, Parkhurst & Horton of Dallas. The firm's name is written on the contracts and questionnaires that prospective clients first read. So is the name of the company that issues the bonds, First Southwest Company. On $257 million worth of IDBs, state records show TRA's exclusive bond attorneys were paid fees of $1,888,125. First Southwest made $1,053,864 in issuer's fees. Politicians, planners, and developers aren't the only ones with a large stake in the IDB system.

When I recently inquired about the TRA's exclusive use of a single bond firm, an agent for the TRA told me that it would be too complicated to have to deal with half a dozen firms. And when I spoke to Charles Kobdish, a lawyer for McCall, Parkhurst & Horton, he said that the company is proud of having built the trust of the TRA for so many years that they have the exclusive relationship.

Someone was sure to call a halt to the IDB spree sometime, and House Ways and Means Chairman Daniel Rostenkowski (D-Ill.), in an alliance with President Reagan's Treasury Department, began trying to reform use of the bonds. In 1983 Rostenkowski got aggressive and began talking about a limit on IDBs. Governors and mayors began screaming. Bond lawyers began lobbying. Rep. Pickle went to their national convention and tried to make the lawyers see that they were killing the goose that laid the golden egg: if everybody had IDBs, they were no special advantage anywhere. They were driving up the cost of borrowing for traditional city needs. And since local government seemed to have no sense of self-control, Congress would have to impose it. A limit of $150 per capita was still pretty generous. It gave Texas about $2.3 billion worth of bonds a year to play with.

Congress's Dallas delegation fought the cap proposal tooth and nail. Democrat Martin Frost of South Dallas, a member of the House Ways and Means Committee, brought Rostenkowski to a standstill. Frost was particularly concerned about limitation on IDBs issued by Dallas Area Rapid Transit (DART), Dallas's new transit authority. Frost wanted mass transit, a pet project of Dallas planners and politicians, excluded from the limitation—and he got his way.

Texas politicians and business leaders have probably generated more hot air about free enterprise, individual initiative, and keeping government out of business than any group in the country. The IDB binge has sorely tested their free-market rhetoric.

Common sense has been stretched to the breaking point in defining "urban blight." Banks and warehouses get millions of dollars of IDBs to create a handful of jobs. Some of the state's richest business people and some of the nation's wealthiest corporations have used the bonds again and again, although they have access to conventional financing. The bonds discriminate against businesses that borrow at the marketplace, and widespread use of IDBs has driven up the cost of local government borrowing, with taxpayers making up the difference.

But what is most disturbing is that in their pursuit of cheap credit, Texans are ignoring the noxious premise that underlies IDBs: the "partnership" of business and government. Creating jobs isn't a favor to a municipality. Creating jobs is what business does in order to make a profit. A "partnership" of business and government is an Orwellian way of saying government in the service of the few and the powerful. ◻

Michael Berryhill is a free-lance writer who lives in Houston. His coverage of Houston's mass-transit controversy for Houston City *magazine (April 1983) won the Washington Monthly Journalism Award. This article is a project of the Reason Foundation Investigative Journalism Fund.*

SAVING THE POOR FROM WELFARE

A noted sociologist shows that there is a way to win the failed War on Poverty — scrap the entire federal welfare system. An excerpt from Losing Ground.

Illustration by Sam McNaughton

BY CHARLES MURRAY

There is a lesson to be learned from our national experience with the Great Society programs of the 1960s and their successors in the years since. The lesson is that the kinds of help we as a nation want to provide are more limited than we commonly suppose. Moreover, even when we want to help, the conditions under which a national program can do so without causing more harm than good are more tightly constrained than we suppose.

This point might seem tailor-made to relieve us of responsibility for persons in need. But I believe just the contrary: that the moral imperative to do something to correct the situation of poor people, and especially the minority poor, is at least as powerful now as when Lyndon Johnson took office in 1963. There is ample evidence to support the case that the reforms flowing from the new wisdom of the 1960s were a blunder on purely pragmatic grounds. But I am convinced that what we did was also wrong on moral grounds, however admirable our intentions may have been.

It was wrong to take safety, education, justice, and status from the most industrious, most responsible poor so that we could cater to the least industrious, least responsible poor. It was wrong to impose rules that made it rational for adolescents to behave in ways that destroyed their futures. The changes we made were not just policy errors, not just inexpedient, but unjust. The injustice of the policies was compounded by the almost complete immunity of the policy-influencing, policy-making elite from the price they *exacted from the poor.*

If the behavior of members of the underclass is founded on a rational appreciation of the rules of the game, and as long as the rules encourage dysfunctional values and behavior, the future cannot look bright. Behavior that works will tend to persist until it stops working. The rules will have to be changed.

How might they be changed? I present a proposal in one of the most pressing areas: public welfare. My aim is not to present a blueprint for welfare reform but to provide a framework for thinking about it.

I begin with the proposition that it is within our resources to do enormous good quickly. We have available to us a program that would convert a large proportion of the younger generation of hard-core unemployed into steady workers making a living wage. The same program would drastically reduce births to single teenage girls. It would reverse the increase in the breakup of poor families. It would measurably increase the upward socioeconomic mobility of poor families. These improvements would affect some millions of persons.

All these are results that have eluded the efforts of the social programs installed since 1965. Yet, from everything we know, there is no real question about whether they would occur under the program I propose. A wide variety of persuasive evidence from our own culture and around the world, from experimental data and longitudinal studies, from theory and practice, suggests that the program would achieve such results.

The proposed program consists of scrapping the entire federal welfare and income-support structure for working-age persons. That includes AFDC (Aid to Families with Dependent Children), Medicaid, food stamps, unemployment insurance, worker's compensation, subsidized housing, disability insurance, and the rest. It would leave the working-age person with no recourse whatsoever except the job market, family members, friends, and public or private locally funded services. It is the Alexandrian solution: cut the knot, for there is no way to untie it.

It is difficult to examine such a proposal dispassionately. Those who dislike paying for welfare are for it without thinking. Others reflexively imagine bread lines and people starving in the streets. But as a means of gaining fresh perspective on the problem of effective reform, let us consider what this hypothetical society might look like.

WHAT'S TO REFORM?

In the 15 years leading up to the Great Society's war against poverty, the federal government spent very little on jobs programs. In the next five years it spent $8.8 billion and in the next decade *$76.7 billion* (in 1980 dollars). Much of this aid was targeted at disadvantaged youths in their late teens and early twenties—the most trainable of the unemployed poor and with the longest time to reap the benefits.

Yet between the period of virtually no aid, 1951-1965, and the period of massive federal aid, 1966-1980, unemployment among black youths *increased*—dramatically: by 19 percent among 20- to 24-year-old males, by 40 percent among 18- to 19-year-olds, and by 72 percent among 16- to 17-year-olds. During the same time, unemployment *decreased* for every black male age group above the age of 25. In spite of massive aid, and in spite of other blacks' progress, unemployment among those who were specifically targeted and who stood the most to gain took a decided turn for the worse.

Anomalies like this are the raw data of Charles Murray's new book, *Losing Ground: American Social Policy, 1950-1980*. Unemployment among black youths is but one example.

- Even compared to their white counterparts, the employment situation for black youths, instead of improving as in the 1954-61 period, deteriorated.
- The percentage of two-parent families among all black families, instead of declining slightly, plummeted.
- The number of black homicide victims, instead of falling, rose precipitously.

On measure after measure of well-being among the very poor, progress had been achieved *prior to* the "generous revolution" of the 1960s; but with the institution of Great Society reforms, that progress slowed, stopped, or even reversed itself. Poverty itself, after declining up until 1968, stood in 1980 at the very percentage registered when Lyndon Johnson left office—in spite of a *quadrupling* of social-welfare spending from 1968 to 1980.

Murray not only charts the indicators of social welfare but asks why. He suggests that one of the most important reasons was a radical transformation of the prevailing view of poverty. "What emerged in the mid-1960s was an almost unbroken intellectual consensus that the individualist explanation of poverty was altogether outmoded and reactionary," he notes. "Poverty was not the fault of the individual but of the system."

Governments proceeded in the 1960s to, as Murray puts it, change "the rules of the game" for poor people, and especially poor black people. But these changes made it profitable in the short run for them to act in ways that were destructive of their own well-being in the long run.

This is the backdrop for Murray's proposals for reforming social-welfare policy. One of those proposals is presented here in REASON's excerpt from *Losing Ground*. (For a review of the book in this issue, see page 51.)

Murray is no stranger to analyzing social programs. From 1974 to 1981 he worked as a senior scientist at the American Institutes for Research, covering such fields as education, welfare services, child nutrition, adolescent pregnancy, delinquency, and criminal justice.

Ken Auletta, the author of *The Underclass*, says of *Losing Ground*: "Charles Murray will infuriate people. But, if they read carefully, he will also make them think."

—M.Z.

A large majority of the population is unaffected. A surprising number of the huge American middle and working classes go from birth to grave without using any social-welfare benefits until they receive their first Social Security check. Another portion of the population is technically affected, but the change in their income is so small or so sporadic that it makes no difference in quality of life.

A third group is made up of persons who have to make new arrangements and behave in different ways. Sons and daughters who fail to find work continue to live with their parents or relatives or friends. Teenage mothers have to rely on support from their parents or the fathers of the children and perhaps work as well. People laid off from work have to use their own savings or borrow from others to make do until the next job is found. All of these changes involve great disruption in expectations and accustomed roles.

Along with the disruptions go other changes in behavior. Some parents do not want their young adult children continuing to live off their income and become quite insistent about their children learning skills and getting jobs. This attitude is most prevalent among single mothers who have to depend most critically on the earning power of their offspring.

Parents tend to become upset at the prospect of a daughter bringing home a baby that must be entirely supported on an already inadequate income. Some become so upset that they spend considerable energy avoiding such an eventuality. Potential fathers of such babies find themselves under more pressure not to contribute to such a problem or to help with its solution if it occurs.

Adolescents who were not considered job-ready find they are job-ready after all. It turns out that they can work for low wages and accept the discipline of the workplace if the alternative is grim enough. After a few years, many—not all, but many—find that they have acquired saleable skills, or are at the right place at the right time or otherwise find that the original entry-level job has gradually been transformed into a secure job paying a decent wage. A few—not a lot, but a few—find that the process leads to affluence.

Perhaps the most rightful, deserved benefit goes to the much larger population of low-income families who have been doing things right all along and have been punished for it: the young man who has taken responsibility for his wife and child even though his friends faced with the same choice have called him a fool; the single mother who has worked full-time and forfeited her right to welfare for very little extra money; the parents who have set an example for their children even as the rules of the game have taught their children that the example is outmoded. For these millions of people, the instantaneous result is that no one makes fun of them any longer.

The longer-term result will be that they regain the status that is properly theirs. They will not only be the bedrock upon which the community is founded (which they always have been); they will be recognized as such. The process whereby they regain their position is not magical but a matter of logic. When it becomes highly dysfunctional for a person to be dependent, status will accrue to being independent, and in fairly short order. Noneconomic rewards will once again reinforce the economic rewards of being a good parent and provider.

> We have available to us a program that would convert a large proportion of the hard-core unemployed into steady workers.

The prospective advantages are real and extremely plausible. In fact, if a government program of the traditional sort (one that would "do" something rather than simply get out of the way) could *as plausibly* promise these advantages, its passage would be a foregone conclusion. Congress, yearning for programs that are not retreads of failures, would be prepared to spend billions. Negative side-effects (as long as they were the traditionally acceptable negative side-effects) would be brushed aside as trivial in return for the benefits. For let me be quite clear: I am not suggesting that we dismantle income support for the working-aged to balance the budget or punish welfare cheats. I am hypothesizing, with the advantage of powerful collateral evidence, that the lives of large numbers of poor people would be radically changed for the better.

There is, however, a fourth segment of the population yet to be considered—those who would be pauperized by the withdrawal of government supports and unable to make alternate arrangements: the teenage mother who has no one to turn to; the incapacitated or the inept who are thrown out of the house; those to whom economic conditions have brought long periods in which there is no work to be had; those with illnesses not covered by insurance. What of these situations?

The first resort is the network of local services. Poor communities in our hypothetical society are still dotted with storefront health clinics, emergency relief agencies, employment services, legal services. They depend for support on local taxes or local philanthropy, and the local taxpayers and philanthropists tend to scrutinize them rather closely. But by the same token, they also receive considerably more resources than they formerly did.

The dismantling of the federal services has poured tens of billions of dollars back into the private economy. Some of the money no doubt has been spent on Mercedes Benzes and summer homes on the Cape. But some has been spent on capital investments that generate new jobs. And some has been spent on increased local services for the poor. In many cities, the coverage provided by this network of agencies is more generous, more humane, more wisely distributed, and more effective in its results than the services formerly subsidized by federal taxpayers.

But we must expect that a large number of people will fall between the cracks. How might we go about trying to retain the advantage of a zero-level welfare system and still address their residual needs?

As we think about the nature of the population still in need, it becomes apparent that their basic problem in the vast majority of the cases is lack of a job, and this problem is temporary. What they need is something to tide them over while finding a new place in the economy.

So our first step is to reinstall the unemployment-insurance program in more or less the form in which it existed before all federal welfare was scrapped. Properly administered, unemployment insurance makes sense. Even if it were restored with all the defects of current practice, the negative effects of unemployment insurance *alone* are relatively minor. The objective is not to wipe out chicanery nor to construct even a theoretically unblemished system but to meet legitimate human needs without doing more harm than good.

Who is left? We are now down to the hardest of the hard core of the welfare-dependent. They have no jobs. They have been unable to find jobs (or have not tried to find jobs) for a longer period of

time than the unemployment benefits cover. They have no families nor friends who will help. For some reason, they cannot get help from local services or private charities except for the soup kitchen and the bed in a Salvation Army hall.

What will be the size of this population? We have never tried a zero-based federal welfare system under conditions of late-20th-century national wealth, so we cannot do more than speculate. But we may speculate. Let us ask of whom this population might consist and how they might fare.

For any category of "needy" we may name, I find myself driven to one of two lines of thought. Either the person is in a category that is going to be at the top of the list eligible for services that localities vote for themselves and at the top of the list of those eligible for private services—or the person is in a category where help really is not all that essential or desirable. The burden of the conclusion is not that every single person will be taken care of but that the extent of resources to deal with needs is likely to be very great—not based on wishful thinking but on extrapolations from reality.

To illustrate, let us consider the plight of the stereotypical welfare mother—never married, no skills, small children, no steady help from a man. We may envision two quite different scenarios.

In one scenario, the woman is presenting the local or private service with this proposition: "Help me find a job and day care for my children, and I will take care of the rest." In effect, she puts herself into the same category as the widow and the deserted wife—identifies herself as one of the most obviously deserving of the deserving poor. Welfare mothers who want to get into the labor force are likely to find a wide range of help.

In the other scenario, she asks for an outright and indefinite cash grant—in effect, a private or local version of AFDC—so that she can stay with the children and not hold a job. In the latter case, it is very easy to imagine situations in which she will not be able to find a local service or a private philanthropy to provide the help she seeks.

The question we must now ask is: What's so bad about that? If children were always better off being with their mother all day and if, by the act of giving birth, a mother acquired the inalienable right to be with the child, then her situation would be unjust to her and injurious to her children. Neither assertion can be defended, however—especially not in the 1980s, when more mothers of all classes work away from the home than ever before, and even more especially not in view of the empirical record for the children growing up under the current welfare system. Why should the mother be exempted by the system from the pressures that must affect everyone else's decision to work?

In whatever detail we try to foresee the consequences of abolishing income maintenance for the working-aged, the objection may always be raised: We cannot be *sure* that everyone will be taken care of to the degree we might wish. But this observation by no means settles the question. If one may point in objection to the child now fed by food stamps who would go hungry, one may also point with satisfaction to the child who would have an entirely different and better future. Hungry children should be fed; there is no argument about that. But it is no less urgent that children be allowed to grow up in a system free of the forces that encourage them to remain poor and dependent. If a strategy reasonably promises to remove those forces, after so many attempts to "help the poor" have failed, it is worth thinking about.

When reforms occur, it will not be because stingy people have won but because generous people have stopped kidding themselves.

But that rationale is too vague. Consider one last, intensely personal, hypothetical example. Let us suppose that you, a parent, could know that tomorrow your own child would be made an orphan. You have a choice. You may put your child with an extremely poor family—so poor that your child will be badly clothed and will indeed sometimes be hungry. But you also know that the parents have worked hard all their lives, will make sure your child goes to school and studies, and will teach your child that independence is a primary value. Or you may put your child with a family with parents who have never worked, who will be incapable of overseeing your child's education—but who have plenty of food and good clothes, provided by others.

If the choice about where one would put one's own child is as clear to you as it is to me, on what grounds does one justify support of a system that, indirectly but without doubt, makes the other choice for other children? The answer that "What we really want is a world where that choice is not forced upon us" is no answer. We have tried to have it that way. We failed. Everything we know about why we failed tells us that more of the same will not make the dilemma go away.

It is entertaining to indulge in speculations about solutions, but they remain only speculations. Congress will not abolish income maintenance for the working-aged. More generally, it is hard to imagine any significant reform of social policy in the near future. When one thinks of abolishing income maintenance, for example, one must recall that ours is a system that, faced with the bankruptcy of Social Security in the early 1980s, went into paroxysms of anxiety at the prospect of delaying the cost-of-living increase for six months.

But the cautiousness of the system is not in itself worrisome. Reforms should be undertaken carefully and slowly, and often not at all. What should worry us instead is a peculiar escapism that has gripped the consideration of social policy. It seems that those who legislate and administer and write about social policy can tolerate any increase in actual suffering as long as the system in place does not explicitly permit it. It is better, by the logic we have been living with, that we try to take care of 100 percent of the problem and make matters worse than that we solve 75 percent of the problem with a solution that does not try to do anything about the rest.

Escapism is a natural response. Most of us want to help. It makes us feel bad to think of neglected children and rat-infested slums, and many of us are happy to pay for the thought that people who are good at taking care of such things are out there. To this extent, the barrier to radical reform of social policy is not the pain it would cause the intended beneficiaries of the present system but the pain it would cause the donors. The real contest about the direction of social policy is not between people who want to cut budgets and people who want to help. When reforms finally do occur, they will happen not because stingy people have won but because generous people have stopped kidding themselves. ◻

Charles Murray is a senior research fellow at the Manhattan Institute for Policy Research. *This article is adapted from his new book,* Losing Ground: American Social Policy, 1950-1980 *(Basic Books).* *Copyright © 1984 by Charles Murray.*

If any one person can be said to have kept the idea of economic freedom alive in this century, it is surely Henry Hazlitt. Through the Great Depression and then 30 years of Keynesian interventionism, and continuing to the present, he has tenaciously explained and defended the free-market economy.

He is an unlikely player for the part. Born on November 28, 1894, Hazlitt in his youth wanted to take up philosophy and psychology but had to quit college to earn a living. Eventually deciding that he wanted to be a newspaperman, he started out at the **Wall Street Journal***—as a stenographer; and with, as he recounts, almost no awareness of things economic.*

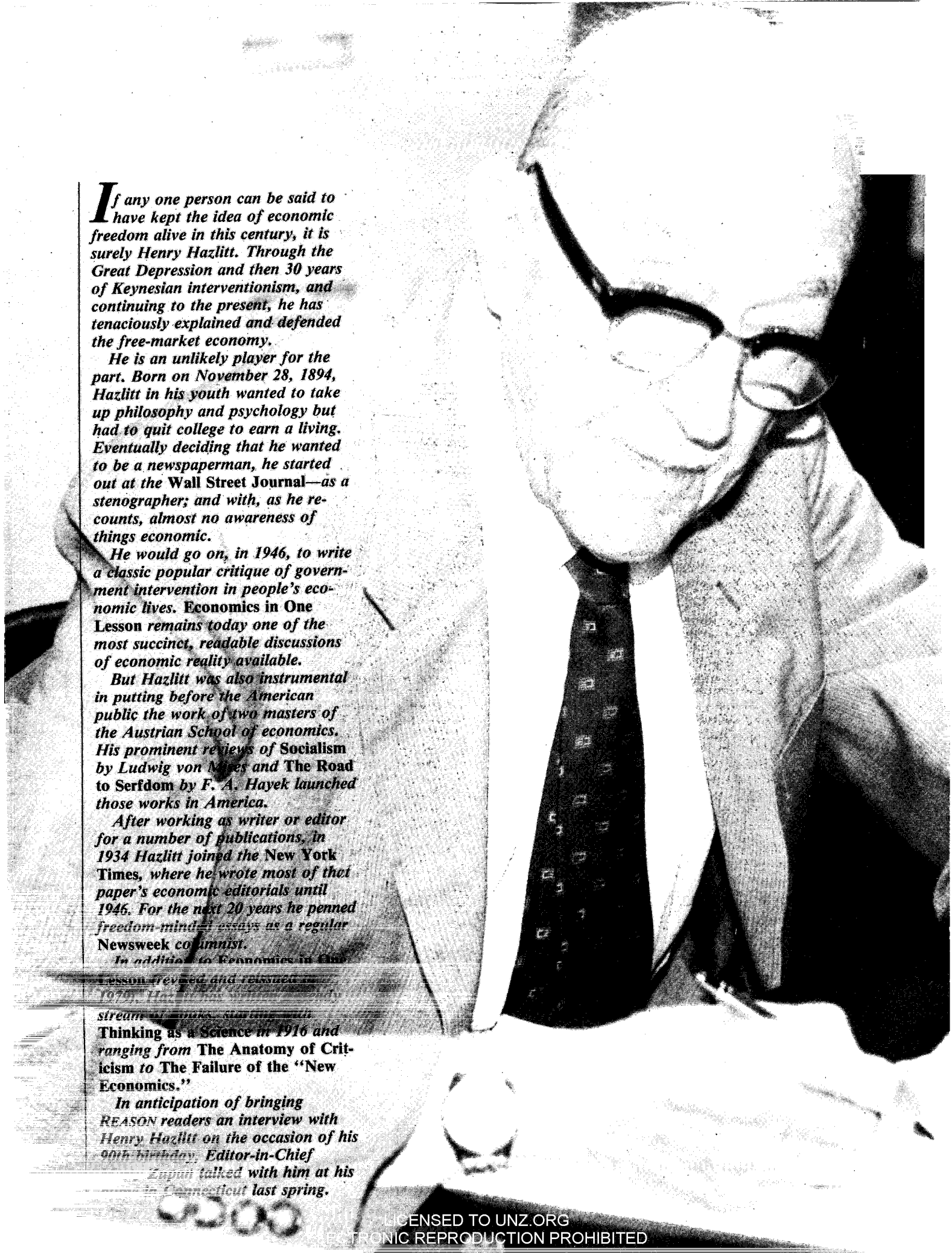
He would go on, in 1946, to write a classic popular critique of government intervention in people's economic lives. **Economics in One Lesson** *remains today one of the most succinct, readable discussions of economic reality available.*

But Hazlitt was also instrumental in putting before the American public the work of two masters of the Austrian School of economics. His prominent reviews of **Socialism** *by Ludwig von Mises and* **The Road to Serfdom** *by F. A. Hayek launched those works in America.*

After working as writer or editor for a number of publications, in 1934 Hazlitt joined the **New York Times,** *where he wrote most of that paper's economic editorials until 1946. For the next 20 years he penned freedom-minded essays as a regular* **Newsweek** *columnist.*

In addition to **Economics in One Lesson** *revised and reissued in 1979, Hazlitt has written a steady stream of books, starting with* **Thinking as a Science** *in 1916 and ranging from* **The Anatomy of Criticism** *to* **The Failure of the "New Economics."**

In anticipation of bringing REASON *readers an interview with Henry Hazlitt on the occasion of his 90th birthday, Editor-in-Chief Virgil talked with him at his in Connecticut last spring.*



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HENRY HAZLITT

REASON: In the 40 years since *Economics in One Lesson* was first published, do you think people have gotten any better at seeing the long-term consequences of such government intervention as rent control?

HAZLITT: I don't know. *Individuals* understand. I still get letters very often from people who've just discovered *Economics in One Lesson.* I just received one from a youngster of 19, who says that he has just read this and it opened his eyes.

REASON: Yes. A man I talked to the other day said, "I was a raving socialist until I read that."

HAZLITT: I think one of the merits of the book, if I may say, is that at the time I wrote it, I wrote it as a sort of lark. I said, "I have an idea for a book on why all these interventions, all these economic interventions, go sour, and I think I'll try that." And when I wrote it, my feelings were not as intense on these things as they are now. I just treated it good-naturedly, and I think this helped persuade people. I wasn't hammering at the reader.

REASON: How did you come to your free-market views?

HAZLITT: Well, these go pretty far back. When I was 19, I had a very great interest in philosophy, and particularly in Herbert Spencer. He was constantly writing books, of course, denouncing government intervention, and so that message was deeply impressed on me.

REASON: So you did not start out as a socialist, like many of...

HAZLITT: Oh, yes. I meant to say—the funny part of it is, even after I had read Herbert Spencer, at somewhere around the age of 20, under the influence of Bernard Shaw, I wrote a paper which must be still extant somewhere arguing for equality of income. I felt that was the only fair thing, although I don't remember arguing that the government should enforce equality. I just thought it was the only equitable system.

But I think I was still in high school when I first started reading Spencer. I also had great admiration for William James, and my ambition then was to go to Harvard and study psychology and be a psychologist like William James, and a philosopher, and so on. But because of my family's financial situation, I had to give up my idea. I went to City College, but after a few months I transferred to the night school, and after about a year and a half or so, I even had to give that up and get a job. So my economic education was from reading.

But anyway, what happened when I started out to get a job, I remember I had no skills whatever. So I would get a job, and I would last two or three days and be fired. It never surprised me nor upset me, because I read the *Times* early in the morning, went through the ads, and I'd practically have a job that day. This shows what happens when you have a free market. There was no such thing as a minimum wage at that time. There was no such thing as relief, except maybe there were places where you could get a soup handout or something, but there was no systematic welfare. You had a free market. And so I usually found myself at a job the next day, and I'd get fired about three or four days after that.

REASON: Because they found that you weren't worth it because you didn't have the skills?

HAZLITT: That's right. I didn't have the skills. But each time I kept learning something, and finally I was getting about $3 or $4 a week. But I was in an office where there was a typist who was getting *$15* a week, and I decided that's where the money is. So I managed to take a night course at a school in stenography and typing. I never finished that course, either, but I applied for jobs as a typist. And of course I'd get fired, because I was incompetent.

At some point I decided that I wanted to be a newspaperman, because it was the only way I could see to get into writing. I always wanted to write. In fact, I was writing a book then, when I was 19 and 20, *Thinking as a Science.* The only place I could find to get in was the *Wall Street Journal*, because the managing editor wanted a stenographer.

REASON: So you started at the *Wall Street Journal* as a stenographer?

HAZLITT: Yes. And there was a fellow who started to tell me about what a job on the *Wall Street Journal* would be like. He said, "You will be a reporter, and then you will become interested in how to analyze a railroad report." And I thought quietly to myself, "The hell I will," because nothing seemed duller to me. I never thought like that. I wanted to be a psychologist. I wasn't interested in any economic questions. I almost didn't even know there *was* such a thing as the science of economics. But after I was there, I found that everybody else was picking it up faster than I was, and I discovered that there was a study called economics. So I began to pick up economics books.

I wanted to find out what were the leading textbooks in the colleges, and I read those. And then I was rummaging in the library and came across a book by Philip Wicksteed. And that became my bible. It was beautifully written and beautifully thought out. Wicksteed was a disciple of [English economist William] Jevons, who had introduced Austrian economics, or practically coinvented Austrian economics. I don't know how I was able to spot how good this was, but it became my bible. Of course, it wasn't until much later that I knew anything about

Photographs by Bettina Bien Greaves

the Austrians, and much later still, of course, when I met Ludwig von Mises.

REASON: So how did you move, at the *Wall Street Journal*, from stenographer to reporting?

HAZLITT: After a couple of years I got a job as a proofreader. I held that job for about three months, until I suddenly recognized something—that if I did a perfect job nobody ever heard about me or knew me, but if I made a blunder they *immediately* knew about it. So, I said, "This is not the kind of job to hold!" I pleaded to be taken off that job, and then I was made a reporter.

REASON: How did you come to be literary editor of the *New York Sun*?

"The phone rang, I picked it up, and the voice said, 'Dis is Mises speaking.' And it struck me who it was. He might as well have said, 'This is John Stuart Mill,' because it's not often that a classic calls you."

HAZLITT: That was purely an accident. I was writing editorials for the *Sun*, mainly economic, financial editorials, when they asked me to fill in for the book editor and eventually asked me to actually be the book editor.

REASON: Did you maintain your interest in economics?

HAZLITT: Oh, yes, because I would review economic books, and so forth. And then what happened was that the *Nation* wanted to get a book editor. The *Nation* was pretty much a leftist magazine then, as it has always remained. But they took me on, and one of the reasons they took me on was that they wanted me not only to write and handle the book reviews but to be able to write editorials on economic subjects.

REASON: Did you have any solidified economic views at that time?

HAZLITT: My economics were pretty conservative, but apparently the people at the *Nation* respected them as being objective and acceptable.

REASON: Did it bother you working there?

HAZLITT: No. It never troubled me at all, because it never troubled them. You know, it's a very interesting thing, later on... You see, the *New York Times*, when I was writing for it [1934-46], was not the very liberal paper that it's become now. And they let me write this whole series of editorials that's just been published as a book, *From Bretton Woods to World Inflation*. The editorials appeared from 1944 to '45, when the Bretton Woods system was being devised. [At Bretton Woods, New Hampshire, in July 1944, under the leadership of British economist John Maynard Keynes, 45 nations drafted an agreement to establish a new international monetary system no longer based on the gold standard.]

By the way, I never met Keynes. When I was on the *Nation*, they invited Keynes to lunch. But on the day he was to come I came down with a cold, so I never met him. And then when the Bretton Woods conference was going on, the *Times* asked me repeatedly whether I wanted to go up to Bretton Woods and write my editorials from there, but I said, "No, I don't. I don't want to meet Keynes, and I don't want to get involved with him or to have knowing him hamper my comments. I'd like to write what I think, and I don't need to meet anybody to do that." And I kept writing, of course, that this was going to induce inflation when they abandoned the gold standard. And they let me do it—I'm talking about Arthur Sulzberger, who was running the paper then. He was uncomfortable, but he respected my objectivity, so he let the editorials run.

Then one day the Bretton Woods pact was signed, and he called me in and said, "Now, look, Henry, I've let you write these editorials. But now that 43 nations have signed this, we can't continue to oppose it. We just can't continue to oppose it." I said, "Well, all right, Mr. Sulzberger, if you want it that way. But I can't write any more pieces about it, because I think it's going to do immense harm, and I can't turn around and say it's a good thing. So that's all. I can't write any further editorials on it." This made for sort of strained relations, but they didn't fire me. And then shortly after that an offer from *Newsweek* came along.

REASON: Earlier, during the '30s when FDR was instituting the New Deal, did you write a lot of editorials about that?

HAZLITT: I didn't like what FDR was doing, and I wrote critically about it, but when it came to Social Security, I was uncomfortable about opposing it. I suggested that it would probably be too expensive in the long run. But I didn't say it stank.

REASON: Is that what you think now?

HAZLITT: Well, I think now that the best thing you could do would be to get rid of it. But the only thing we *can* do is to try to limit the age at which it begins and things like that.

REASON: You mean, the only thing politically we can do?

HAZLITT: Yes, politically it's about the only thing possible.

REASON: Going back to the '30s and '40s, during this time, you reviewed Ludwig von Mises's *Socialism*—which was the first von Mises book translated into English?

HAZLITT: Well, now, let me see. I think it was, but the first time I ever heard of Mises was when I read a book by Benjamin Anderson, *On the Value of Money*. This was a very fine book. It was very critical of nearly all the writers who were writing on money at that time, except that he reviewed Mises's book from its German edition and praised it.

In 1937 I read a review of *Socialism* in the London *Economist*. I think they praised it—not extravagantly, but they praised it. The British publisher sent me a copy and I reviewed it in January of 1938. I was terrifically enthusiastic about it, and I said that Mises had written an economic classic in our time. I sent a copy of the review to the publisher to forward to Mises, and I enclosed a letter to Mises. He was then in Geneva.

REASON: And that was the first contact you had made with him?

HAZLITT: Yes. And then he wrote me a letter and we had some casual correspondence. It may have been half-a-dozen letters back and forth. But then when he came over in 1940, and I've often told this story, the phone rang at home—maybe it was at the *Times*—and I picked it up, and the voice said, "Dis is Mises speaking." And all of a sudden it struck me who it was. He might almost as well have said, "This is John Stuart Mill speaking," because it's not often a classic calls you up.

REASON: And later, then, you reviewed F. A. Hayek's *Road to Serfdom*?

HAZLITT: What happened with the Hayek book is also interesting. John Chamberlain had been asked to do a foreword to it, and he called me up and alerted me to this and said he thought it was a very good book. And I immediately asked the book editor of the *Times* whether he would send me a copy of the book for review. And he said he would. I was terrifically struck by the book and wrote that this was one of the most important books of this generation, and so on. As a result of that—the book editor had probably intended to run it on page 21 or somewhere in the back—but when he saw this, he decided to run it on page 1. The consequence was that it immediately appeared on the bestseller list, and then *Reader's Digest* decided to run a condensation of it, and they preceded this condensation by quoting a couple of lines from my review. I think that if everything I've written myself is worthless, at least I think I helped that book.

REASON: To turn to your own work, when your point-by-point criticism of Keynesianism, *The Failure of the "New Economics,"* was published in 1959, did you expect academic economists to pay attention to it?

HAZLITT: Not really. And most of them did ignore it. However, it did get into the hands of some academic libertarians, and there I got very good reviews of it for the most part, very extensive reviews of it.

REASON: Have you ever regretted that you didn't at some point pursue an academic career, say, in economics?

HAZLITT: Well, you see, I couldn't, because I didn't have the academic requirements. But I never thought much about it. I've lectured at a lot of colleges, but no, I am pretty much satisfied with the career I did. I *like* writing.

REASON: John Chamberlain, in his recent autobiography, says that he was converted to the free market by what he good-naturedly called "the gang of three"—Rose Wilder Lane, Isabel Paterson, and Ayn Rand. Did you know them all?

HAZLITT: Yes. Yes, I did.

REASON: Did their writings influence you?

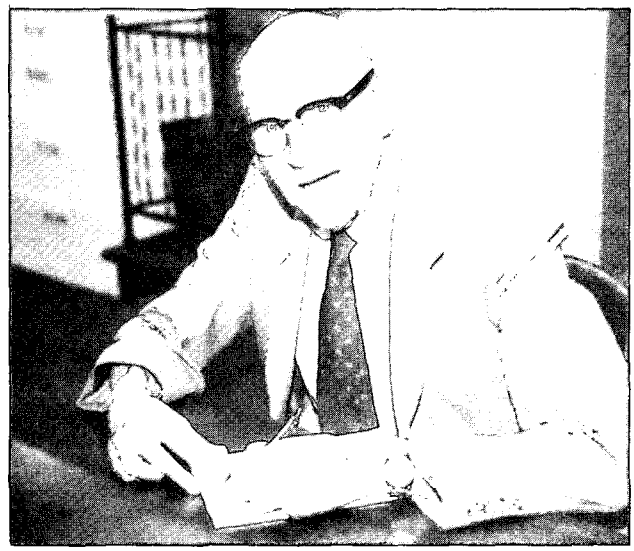
HAZLITT: No. I already had these opinions, and I always thought that Ayn was too strident and preached the doctrine of selfishness. I never thought that that was a necessary part of libertarianism. I don't see anything wrong with altruism—except a sort of silly altruism that wants to force you to give money to incompetent people or lazy people or anything like that. That kind of thing I think is bad, but a curious thing about Mises—and I was influenced by him myself, and so was Ayn Rand—was his emphasis on cooperation.

Oh, by the way, Ayn Rand and Mises were once guests at my house for dinner, when we were living in New York. This was their first meeting.

REASON: You already knew Ayn Rand?

HAZLITT: Oh, yes. My wife, Frances, was a story editor for Paramount. Ayn was writing a book, but she had to make a living, so she worked for Frances condensing books for Paramount. So I met her first, I guess, at Frances's office. And she read some of my pieces, and so on.

And so then we invited them to dinner—this was after *The Fountainhead* had appeared. Mises had read that, and she had read some of his things. They admired each other, but of course, with reservations. Lu [Ludwig von Mises] had a lot of reservations about Ayn, but he admired her vigor and so on. But after dinner they were both sitting in our living room next to each other on the couch, and I was getting drinks. When I came in with the drinks, Lu and Ayn were having a terrible fight. Ayn was saying, "You think that I'm just a poor little Jewish girl who . . ." something like that. I just heard this part, and Lu was sitting down, and she was thundering all these things. And I said, "Oh, I'm sure Lu didn't say that." And she said, "He *did* say it!" Then I said, "Well, I'm sure he didn't mean it that way." And Lu was hard of hearing anyway, and he got up, and he said, "I *did* mean it that way." And this got to be terrible. I didn't know what to do about it, but I kept saying, "I think this is all a mistake." So anyway, somehow they got settled down and left on a friendly basis.



"The book I'm writing now will be called *Is Politics Insoluble?* And I decide that it is—that the personal ambition for individuals to rule or ruin makes it impossible to have a secure permanent democracy."

REASON: Did you have any dealings with them together over the years?

HAZLITT: No, and I don't know how much they were ever together. I do know—we were starting to talk about her doctrine of selfishness—that she did call often on human cooperation, and she got that concept more or less from Lu.

REASON: Did you ever try to debate Rand on the issue of selfishness?

HAZLITT: No, no. I never debated with Ayn. I never had a feud with her of any kind because I knew that we had this difference, and I didn't think we'd straighten it out by arguing. I don't try to change someone's mind if I think it's a basic and set thing.

But this reminds me of something. In 1947, Hayek invited 43 people from a half-a-dozen countries to Vevey in Switzerland, and that became the Mont Pelerin Society. He invited some of us from the United States, and we went over on the *Queen Elizabeth* together. And practically every night at din-

ner I would get into an argument with Milton Friedman about his monetary views and his quantity theory of money. We would continue it after dinner, and my memory, which may be faulty, was that George Stigler and Frank Knight and some of the others in the group would sit around amused at this argument. I think they were on Milton's side, but they were amused by the argument. But this is the kind of thing I would argue about with Milton. I don't think I ever argued with Milton on any libertarian issue or anything except the monetary issue. And I *always* argued with him on that.

REASON: Do you consider yourself a libertarian more than a conservative?

HAZLITT: Yes, yes. Oh, by all means. I have no sympathy with these things like prayer in the schools. Well, abortion is an issue that you can't—that I think is not a yes or no issue. I don't believe in complete permissiveness for abortion. Nor do I consider seriously the forbidding of abortion. There are so many questions involved. Another area that I find very tough is the question of pollution. A lot of these issues I haven't written about at all, because they are breaking ground, and I don't think it's worthwhile, if you haven't made up your mind, to write a piece saying, "Well, on one hand, but on the other hand."

REASON: You wrote a book in 1942 advocating a European parliamentary system for the United States. Do you still see great potential in such a reform?

HAZLITT: Well, I still believe in it, but of course, I have come to realize that it isn't necessarily the salvation of everything. It means that the typical parliamentary leader, the typical prime minister, is a far more able person and a more cooperative person than the typical American president. But even so, if public opinion is fundamentally sour, then nothing can be done about it.

REASON: Yes, because the British experience, of course, provides a strong counterexample to the idea that the parliamentary system is any great salvation.

HAZLITT: Yes, and practically all of the European countries have a parliamentary system, except France, which had it and retired from it and sort of half-way came back to it. They all have it, and they are all socialized, much more socialized than we are. And it's much more dug in, because an American president can violate with impunity a lot of things that the prime minister can't.

REASON: You have argued recently in the *Wall Street Journal* for a line-item veto for the president. Do you see great potential in this reform?

HAZLITT: As a matter of fact, I end by admitting that the line-item veto might not cure the situation, might not bring about complete budgetary responsibility. Also, I point out there that the British system apparently is very good, because unless Parliament accepts the budget of the government, which is the prime minister and his cabinet, the government falls. And once Parliament's accepted it, they have to abide by it. They can't appropriate a penny more. Theoretically, that should have produced a sound budget in Britain. Actually. . .[laughs].

REASON: You see the same thing in some of the states in the United States that have line-item vetoes.

HAZLITT: Well, I want to tell you, the book I'm writing now will be called *Is Politics Insoluble?* And I decide that it is—that the personal ambition for individuals to rule or ruin makes it impossible to have a secure and permanent democracy.

REASON: Are you saying that relatively free societies will always tend to move toward totalitarianism?

HAZLITT: A more clear example is Latin America. They have military dictatorships because the democracies tend to bring ruin and chaos, so some military leader decides that he knows what to do. So he puts in some sort of fascism or whatever and also rules the economy, but in a different way than democracy has ruled it. And I don't see how you're going to prevent or stop this. You can write limits into a constitution, but the question is, is there any way to ensure the preservation of a limited democracy? Even if you have a good system, if the majority has its way, it's sure to lead to bad policy, because the majority doesn't understand limited government.

REASON: You sound pessimistic.

HAZLITT: I just recently came across something by William Graham Sumner. I don't know when he said it, but William Graham Sumner lived from 1840 to 1910, and he said, obviously sometime before 1910, "I have lived through the best period of this country's history. The next generations are going to see war and social calamities. I am glad I don't have to live on into them." This is the way I feel now, just as Sumner felt then. I'm glad that I'm not going to live for many years now, because I see a very dreadful time. Now that we have discovered the atomic bomb, I can't see how we're going to keep somebody from using it, just out of sheer curiosity.

REASON: Or sheer evil.

HAZLITT: Yes—sheer evil. The communist camp won't change their system; they won't learn how. But one thing that holds it together is hatred of any noncommunist country. And that's one thing they can do—they can still express their hatred. So I think the outlook for the world is very dismal.

REASON: Holding the foreign situation in abeyance, if you look at the domestic United States, what are the prospects for liberty?

HAZLITT: Since they destroyed the gold standard, we have had universal inflation, and inflation always demoralizes. There was enormous demoralization in Germany during the inflation, and it lasted a long time afterwards. And as long as we have inflation and don't cure it, there's no prospect for fiscal responsibility, so that we look forward to inflation for as long as we can see. And then we have to look forward to intervention—price controls and rent controls and interest-rate controls and a whole series of controls to try to prevent the consequences of inflation.

REASON: Do you see any signs of hope?

HAZLITT: Well, I could see some. But this inflation is the overhanging thing to which I can't see the solution. The book I'm working on was originally written in a light-hearted spirit as an article that was published in *Modern Age* with the title "Is Politics Insoluble?" But then after I had written it, I began to take the question more and more seriously. So I want to continue it.

One of the things I want to write is that it does some good to try to think and write about what ideal government would be, both in its extent and what it should consist of—but that it doesn't do very *much* good, because there are popular ignorance and narrowness and fallacies which will probably never be eradicated if you have a pure democracy.

I'm reading Hayek's *Law, Legislation, and Liberty.* This deals with the function of law and how much we can do to preserve the law, which is the same thing as preserving a reasonable government. I don't go along with people making a religion of the word *liberty*, and who think of liberty as being limitless. Liberty has to have limits. You know the expression, "My liberty to swing my arm ends where your nose begins." And there is the problem of figuring out where your nose begins and just how that should be handled. All liberty is liberty under law, and that's the catch. That's the question that must be eternally hammered out, and I don't think anybody has given a perfect answer to that question yet. There's still going to have to be a lot of thinking just about our concept of liberty. ◻

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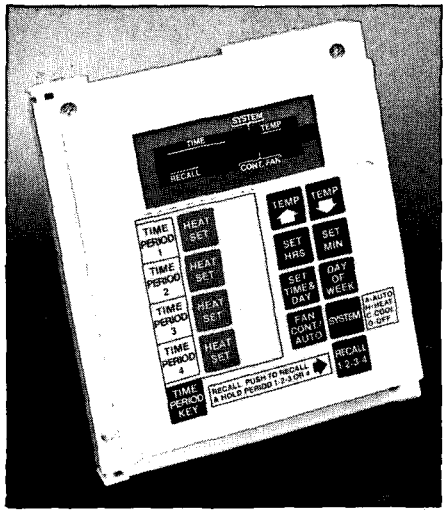

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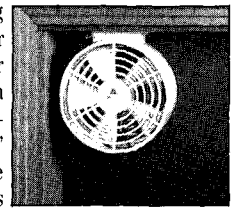

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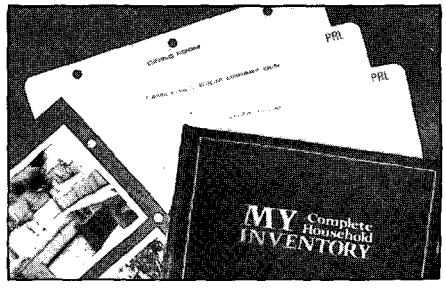

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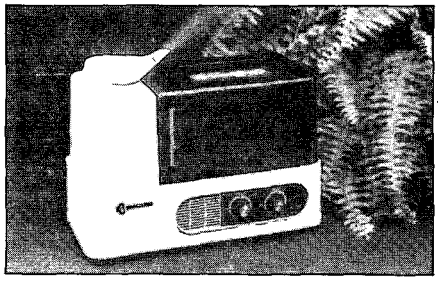

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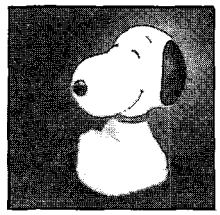

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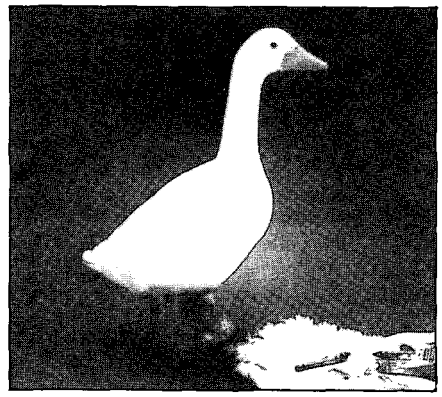

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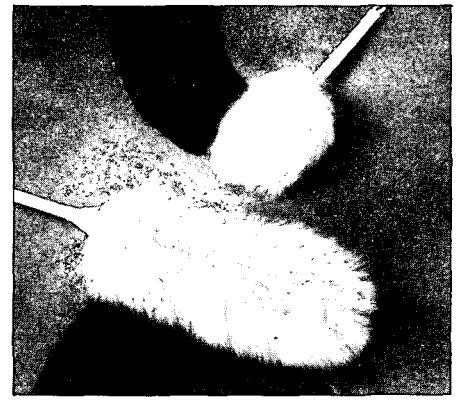

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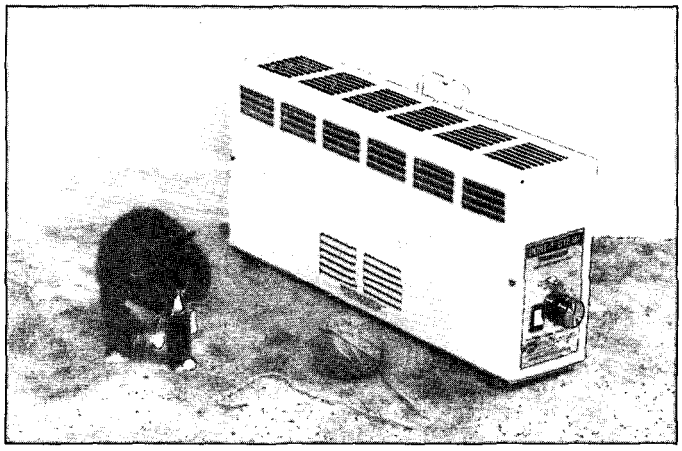

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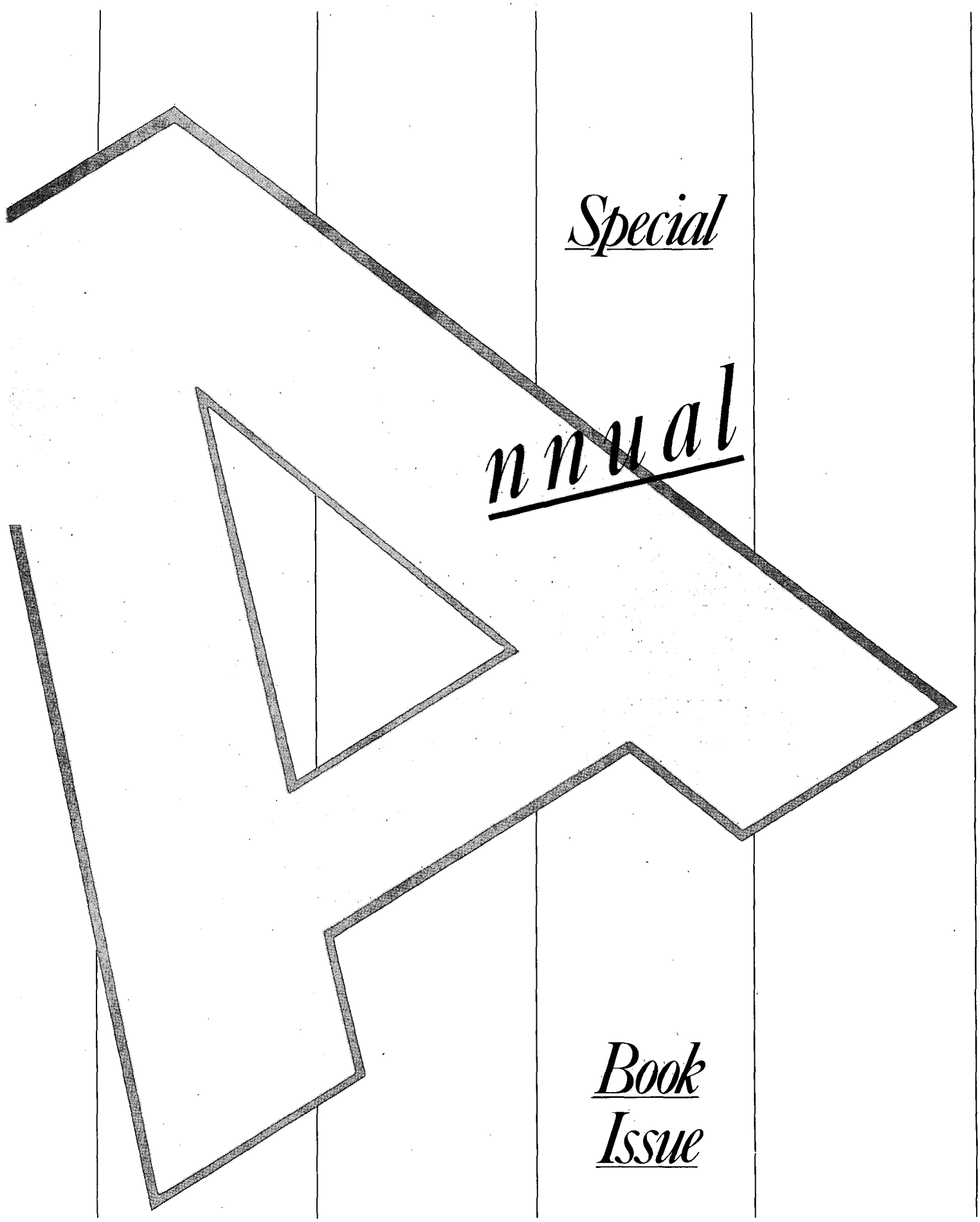
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Standing Fast against Planning and Poverty

Reality and Rhetoric: Studies in the Economics of Development

By P. T. Bauer

Cambridge, Mass.: Harvard University Press. 184 pp. $15.00

Reviewed by Thomas Sowell

Professor Peter T. Bauer, of the London School of Economics, is one of those intellectually heroic figures who has stood fast against the fads and hysteria of his time. While the vast currents of "development economics" inundated us with "overpopulation" theories and "vicious cycle of poverty" doctrines that depicted massive foreign aid as the only salvation of the Third World, Bauer said "No!" loud and clear—but virtually alone.

Despite his scholarly achievements and personal experience in the underdeveloped world, Bauer was long ignored or disparaged as he poked holes in the prevailing orthodoxy. Today, he can no longer be ignored—not even in academic and media circles where the prevailing orthodoxy was once treated as the one true faith. Bauer's message has begun to be heard, not only because of his own perseverance and insights, but also because the repeated failures and massive disasters of "development planning" have finally broken through the smug unanimity that long substituted for evidence or critical analysis.

Reality and Rhetoric is a compilation of Bauer's essays over the years on such topics as foreign aid, "planning" versus markets in the Third World, imperialism, and the moralistic pronouncements of the clergy on the international economic order. These essays are written and reasoned in a very straightforward way. It is enough to make you forget that he is an economist.

Bauer's criticisms of current thinking about Third World nations are both wide and deep. He questions the very concept of "foreign aid" or "the Third World." Whether international transfers of money to the less-developed nations are an aid or a hindrance to their economic progress is for Bauer a question rather than a foregone conclusion. His own reading of the evidence is that it has hindered more than it has helped.

The tremendous range of extremely different nations lumped together as "the Third World" likewise makes no sense to him. All that these nations have in common is that they receive "foreign aid." A few of these recipient nations have even had higher per capita income than some of the donor nations. Most—if not all—of the poorer nations have classes of people who are more affluent than the average Western taxpayer in the donor nations—and it is precisely those affluent people who have the inside track in getting their hands on the foreign aid.

Bauer is not a mere Scrooge who says "Bah! Humbug!" to the poor. On the contrary, his vision of the world accords far more respect to the less-developed regions and peoples than does the conventional viewpoint. Bauer denounces the "contempt for ordinary people" that underlies development planning.

P. T. Bauer: An intellectual hero, a poker of holes in the prevailing orthodoxy of development economics.

Drawing on his own many years of research and observation, he punctures the idea that Third World people can progress only under the tutelage of foreign experts or their own westernized elite. Evidence to the contrary, he notes, is found in "the large scale capital formation in agriculture by the local people" in West Africa; the fact that over half the acreage planted with rubber trees in southeast Asia was owned by Asians, even before World War II; and large-scale international migrations by poor and illiterate people who were nevertheless "well informed about economic conditions in distant and alien countries."

Dramatic economic changes over time likewise belie the stereotypical picture of hopelessly stagnant peasants needing foreign "experts" or domestic political "leaders" to get them going. Bauer notes: "In the space of a decade or two, the illiterate peasantry of South-East Asia and West Africa planted millions of acres to produce new cash crops; and rubber, cocoa and kola trees, for example, take five years to become productive." So much for the notion that Third World masses cannot think beyond today.

Bauer also recognizes "the reality and importance of group differences" within the population of a given nation, even though this subject "is virtually proscribed in the profession." Particular segments of the population of very poor and backward nations often have people who are entrepreneurial, hard-working, thrifty, and with great initiative and imagination. Far from making use of such people for advancing the economic level of the country, many Third World governments devote great efforts to stifling or even expelling such groups, especially when they are racial or ethnic minorities whose prosperity is envied and resented by others. The Chinese in Southeast Asia, the Indians in East Africa, the Lebanese in West Africa, and the Jews historically in Eastern Europe are only some of the more-prominent examples of this very widespread phenomenon.

Early in his career, Bauer was struck by these intergroup differences, which were largely ignored by other development economists: "The differences in economic performance and hence in achievement among groups were immediately evident, indeed startling." Unskilled plantation workers in Malaya, working with primitive implements, nevertheless differed in output by a ratio of two-to-one as between Chinese and Indian workers, though both were "uneducated coolies." Differences in other occupations—especially entrepreneurial occupations—are even greater.

Contrary to the prevailing egalitarian ethic, Bauer declares that "differences in incomes and rates of progress between individuals, groups and regions...are not reprehensible. They are inevitable." Egalitarianism is to Bauer simply the "legitimization of envy." He rejects "the notion that the well-off have prospered at the expense of the poor" and calls it "the

Photograph courtesy Harvard University Press

most pernicious of all economic misconceptions." Implicitly, it assumes a zero-sum world, in which *A* gains only at the expense of *B*, and turns attention away from the central issue of how to increase total wealth. Throttling the production of wealth, in the name of equality, is not humanitarianism but moralistic self-indulgence. So is guilt. Bauer regards "guilt in the West toward the Third World" as "a feeling which does nothing to assist the ordinary people" of the poorer countries.

If your purpose is to understand economic development in the poorer nations, you cannot get a better brief introduction to the subject than in *Reality and Rhetoric.* If your purpose is to learn the latest fashions in theories and buzzwords, this is not the place. "Statement of the obvious," Bauer says, "has become a major task," in part because "prominent economists have perpetuated the grossest elementary transgressions of fact and logic." Words like *infrastructure* and phrases like *the vicious cycle of poverty* have created reputations and programs, even as they have soared above reality and left disaster after disaster in their wake.

Bauer not only mentions some of these disasters but points out how "foreign aid" subsidizes them. The international aid organizations' emphasis on "need" in general and short-run crisis management in particular means that poor nations that have behaved responsibly, and lived within their means, are far less likely to get money than governments that have spent lavishly, engaged in grandiose social and economic experiments, and run up huge foreign debt without any concern for how—or whether—they would pay it off. Bauer is not afraid to call this "preferential treatment of the incompetent, the improvident or dishonest."

In its effects on national well-being, the difference between responsible and irresponsible government is seen by Bauer as far more important than the sums transferred by international aid organizations. Insofar as these transfers reward counterproductive government policies, the losses they engender may readily exceed any benefits they can purchase. The sums involved in these international transfers are often not very large relative to total national output but are very impressive as a percentage of government discretionary spending. Therefore their effect on government policy may be very large—and very counterproductive—while they directly add relatively little to the available resources of the economy.

In India, for example, foreign aid in 1980 amounted to less than 2 percent of gross national product (GNP), but it was 18 percent as large as the government's total tax receipts. In Tanzania, foreign aid was 18 percent of GNP and slightly larger than all taxes received by the government.

In short, foreign aid greatly increases the recipient government's economic leverage in the economy. In addition, international development agencies tend to be biased toward statist policies, both inherently and as a matter of choice. Inherently because it is, after all, governments that receive both financial resources and the advisory personnel provided by the international development agencies. Moreover, "many staff members of the international organizations favour *dirigiste* policies (state economic planning)," according to Bauer.

"The international aid organizations and their staffs are not disinterested," Bauer points out, but instead have heavy personal and institutional stakes in a large and growing amount of foreign aid. These aid organizations are politically active and effective in the Western nations. Their version of the world economic picture is constantly fed through the media to the public as the only humane and decent way to see it. They have patronage to offer academics in the form of jobs and consulting arrangements. At the same time, these international bureaucratic empires are dependent on the Third World nations to accept their aid—and often express fears that the aid would be refused if various conditions were attached to ensure responsible behavior by the recipients.

The moral climate generated by Western intellectuals—including the media and the clergy—is one of the key ingredients in the political success of this process of draining money from Western taxpayers for the benefit of Third World ruling classes and international bureaucracies. Guilt is one of the factors in this moral climate.

The idea that the poverty of some nations is caused by the affluence of other nations is taken as axiomatic in many quarters. Bauer, however, treats this notion as a hypothesis instead of an axiom and looks at the evidence. He finds that in fact poverty and backwardness are greatest in those Third World nations that have been least touched by Western imperialism, trade, or multinational corporations—for example, Ethiopia and Liberia in Africa, and Bhutan, Sikkim, Tibet, and Nepal in Asia.

Far from deferring to the moral authority of politically active clergy, Bauer characterizes their arguments as "immoral because they are incompetent." He says: "There is profound truth in Pascal's maxim that working hard to think clearly is the beginning of moral conduct." Bauer sees these activist clergy as "seeking a new role for themselves in the face of widespread erosion or even the collapse of traditional beliefs." Their susceptibility to any idea that calls itself "social justice" he regards as symptomatic of a lost religious faith that finds a substitute in secular credulity.

Professor Bauer is no longer alone, though he is still vastly outnumbered by those with a vested interest in the foreign-aid status quo. This book will make it harder for them to continue to pull the wool over the eyes of the taxpaying public.

Thomas Sowell, an economist at the Hoover Institution in Stanford, California, is the author of numerous books, including The Economics and Politics of Race *and* Civil Rights: Rhetoric or Reality?

Illustrations by William Buerge

Jacobs' Ladder to Prosperity

Cities and the Wealth of Nations: Principles of Economic Life

By Jane Jacobs

New York: Random House.
251 pp. $17.95

Reviewed by Thomas J. Bray

Just over 20 years ago, Jane Jacobs took on the urban-planning profession in *The Death and Life of Great American Cities.* A few years later, she penned *The Economy of Cities.* Not surprisingly, her latest book, *Cities and the Wealth of Nations: Principles of Economic Life,* again looks at cities, this time as the focal point of political and economic life—more important even than the nation-state. In *Cities and the Wealth of Nations,* Jacobs sets out to show why this is so and why the wealth of nations is dependent on the well-being of its urban agglomerations. Because urban areas manifestly haven't been doing so well recently, she suggests that the outlook for nations also is bleak.

It's hard not to see something terribly malevolent at work in such cities as Detroit (to pick a city familiar to this reviewer), where urban decay has reached almost apocalyptic proportions. And it's natural to fear that the decline of some of our major cities portends badly for the country as a whole. The worst of the urban decline coincided with the debilitating economic stagnation of the last 15 years or so. It is Jacobs's thesis that our cities have turned into stagflationary lumps threatening to metastasize through the body politic as a whole.

It's an intriguing and provocative thesis. In the end, however, Jacobs fails to make her case. Not the least of her problems is that she may have written her book a year too soon. The stagflationary beast has been slain, at least for the moment. Inflation is down; economic growth robust. And this was brought about not by fancy new urban-based views of the way the world works but by policies that have their base in...Adam Smith, that preeminent economist of the 18th century.

The economic climate could change, of course, and Jacobs's theory may find easier acceptance. Yet policymakers aren't likely to find it of much practical help. Ultimately, Jacobs is forced to confess that she is baffled by what she finds. As a solution to stagflation and urban decay she has little more to suggest than "drift"—stumbling along as best we can in the hopes that something will turn up to reverse the tide. Indeed, "drift" is the depressing title of her last chapter.

That's not to say there isn't much of value in Jacobs's book. The basic error of modern economics, she asserts, is to think of the nation-state as the primary engine of the wealth-creation process. The real engines of wealth are what she calls "the import-replacing cities." These are cities in which people learn to fabricate products in place of goods that had previously been imported from other manufacturing centers. As a city's populace develops the skills to do this, it develops export markets of its own and begins to generate a surplus with which to import other goods, which are then consumed or fabricated into yet other export goods, which generates more surplus, and so on.

"Any settlement that becomes good at import-replacing *becomes* a city," writes Jacobs. "And any city that repeatedly experiences, from time to time, explosive episodes of import-replacing keeps its economy up-to-date and helps keep itself capable of casting forth streams of innovative export work....The process feeds itself, and once under way, does not die down in a given city until all the imports that are economically feasible to replace at that time and in that place have been replaced."

The import-replacing process sounds faintly reminiscent of the mercantilism of post-feudal Europe, wherein industry was actively promoted to attain a favorable balance of trade. But it is not mercantilism that is at work here, Jacobs insists: "An import-replacing city does not, upon replacing former imports, import less than it otherwise would, but shifts to other purchases in lieu of what it no longer needs from outside. Economic life as a whole has expanded."

Jacobs characterizes the nonurban hinterlands as "supply regions," areas capable of efficiently producing commodities such as grain or minerals but whose economies are too limited to build up the skills and diversity necessary to sustain the wealth-creation manufacturing process. Supply regions can be whole nations, such as Third World countries that export raw materials to the industrialized countries, or such areas as the farm states of America that ship food to the cities in exchange for manufactured goods. In either case, they live a precarious existence. They have little to fall back on if there is a crop failure, a sudden shift in demand, or other uncontrollable event.

Efforts to diversify and modernize a supply region or a decaying city by force-feeding economic development are almost certainly doomed to failure, Jacobs argues. Here she takes a leaf from the pathbreaking work of British economist P. T. Bauer. Loans, aid, and welfare help only as long as the funds are flowing. When they stop, economic activity once again stops or resumes its decline. The provider of the welfare, meanwhile, has been weakened by this misallocation of capital—what Jacobs terms "transactions of decline."

The only answer to this zero-sum game, in Jacobs's view, is to strengthen the cities. They are the true incubators of wealth, where capital, information, and entrepreneurial skill combine to move civilization forward. Societies that don't show a strong regard for their cities are doomed to slip back into colonial status, selling their raw materials or labor to societies that are still growing and vigorous.

But there's the rub, according to Jacobs. Nation-states are fated to smother their city-states. They do so, she argues, because the nation-state reserves to itself a monopoly on monetary policy.

A nation's currency is more than a medium of exchange, Jacobs correctly points out. It is also a form of "feedback"—that is, a basic barometer of economic health. If an economic unit's currency is appreciating in value, it means the economic unit is doing well, because it is generating (or can be expected to generate) a surplus of exports over imports. If the economic unit persistently imports more than it exports, the currency will tend to decline in value. Seeing this, the constituents of the economic unit will react with appropriate policies and investment decisions to rectify matters and achieve equilibrium. They use monetary feedback as a fundamental measure of how they're doing.

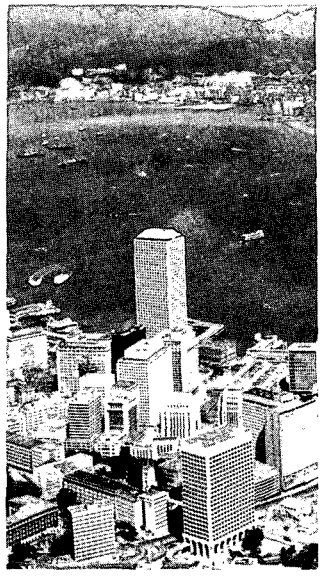
But when the currency is controlled at the national level, it may not reflect local realities or give the correct "feedback" to decision-makers. As a result, businesses may not realize soon enough that their products are

becoming uncompetitive, and politicians may be shielded from the evils that their policies do. Because a national currency by definition averages out nationwide needs and trends, including those in supply regions, the needs and trends in individual import-replacing cities are in danger of being overlooked.

The logic of this analysis, of course, is for each city to have its own curency. That way New York Mayor Ed Koch wouldn't have to go out on the streets to ask his famous question, "How'm I doing?" He'd get all the feedback he needs by calling his currency traders. Jacobs notes that today's city-states, such as Hong Kong and Singapore, which have their own currencies, have enjoyed tremendous success even while urban centers in much of the rest of the industrialized world have been deteriorating.

But she admits that a return to the city-state isn't likely. People aren't about to give up the national identities they have spent so much blood and treasure to acquire. She also acknowledges, but doesn't explore, the problem of whether carving up, say, the United States into dozens of city-states would really be efficient economically, much less politically. What individual cities or areas may lose in "feedback," they gain in having a common market and an effective national defense.

Besides, what guarantee is there that city regions will do any better at managing their currencies than nation-states? There is no reason to think that city monetary authorities would be any less prone than national authorities to debauching the currency to serve short-run political needs of politically potent constituents. If Jacobs really is concerned about feedback, she would be better off arguing for a completely privatized currency, as suggested several years ago by the Austrian School economist F. A. Hayek. Good currency could then drive out bad currency, at least in the Hayekian dream



Cities, by Jane Jacobs's lights, are the true incubators of wealth, the source of civilization's progress.

of things.

But of course it's nonsense to suspect that cities don't get feedback. One has only to look around our cities to get all the feedback one needs in order to know that in most of them something has gotten badly out of kilter. Indeed, it has been a matter of high national policy for decades to do something about these declining cities. The problem is that we have been pursuing solutions—"transactions of decline," in Jacobs's phrase—that only make matters worse.

The primary beneficiary of these efforts at wealth redistribution is the capital city. "Historically, in nations where city economies are dying and where, as well, cities are drained in service to transactions of decline, one city remains vivacious longest: the capital city. This is because capital cities thrive on transactions of decline. When a city's principal function is being a capital—like the city of Washington in the United States or Ottawa in Canada—it is obvious that the more transfer payments, subsidies, grants, (and) military contracts, the greater the work and prosperity in the capital city."

This is good stuff, as far as it goes. Apart from questions about the validity of some of the distinctions Jacobs tries to make—as, for instance, between city regions and supply regions—her real problem is more fundamental. The "import-substitution" process Jacobs describes is, at bottom, a mystery to her. She makes no real attempt to figure out what brings it about. It just happens. People get together, form a city, and bang, "import-substitution" begins.

Thus Jacobs can suggest no practical way out of the blind alley to which her analysis leads her. She describes cities, but she can't explain them, other than through a sort of Big Bang theory of wealth-creation. That's too bad, because everything she describes is perfectly compatible with one of the oldest explanations for how wealth is created: incentives.

Her description of the "import-substitution" process is an apt summary of what we know about entrepreneurial behavior. Her description of the urban role in this is consistent with what we know about the capitalizing process, in which information, labor, and capital come together to create the periodic explosions known as material progress. And her insight that government intervention tends to make matters worse rather than better is the beginning of wisdom.

It's ironic that an author who has styled her title after Adam Smith's masterwork, *The Wealth of Nations*, should ignore this obvious possibility. And particularly so at a time when "supply-siders" and others are busily reinventing classical economics and its incentive-based principles. They would have benefited greatly from Jacobs's great fund of knowledge. Our urban areas still don't receive the attention they deserve, least of all from an administration in Washington that has the right instincts but whose vision often doesn't seem to extend much beyond the country club.

Thomas J. Bray is editorial page editor of the Detroit News.

Sharpe Barbs at the State

Eleven novels by Tom Sharpe

Reviewed by Robert Blumen

No one is safe from the satirical pen of British novelist Tom Sharpe. But above all, bureaucrats and powerbrokers should beware. Such targets Sharpe takes on fearlessly. There are murderous police officers in *Riotous Assembly* and *Indecent Exposure*, coercive urban planners in *Blott on the Landscape*, petty educational bureaucrats in *Wilt*, and rent controllers and tax collectors in *The Throwback*—and they are all blasted relentlessly.

For over a decade, Sharpe's vigorous attacks on prominent social, cultural, and political institutions have thrust his novels to the top of Britain's bestseller list. Now Americans can savor his ribald humor, his unrestrained romps across the boundaries of the conventional, the mild, the disciplined, and the polite. There is something—in most cases several things—to offend almost everyone amid the carnage, chaos, sex, rudeness, and coarse language of Sharpe's farcical novels. Offended some may be, but critics of the modern state will delight in his put-downs of public education, police, politicians, zoning laws, rent control, and other tempting targets.

Though Sharpe consistently attacks government institu-

Photograph by Ray Cranbourne/Hong Kong Tourist Association

tions, it would be hard to characterize him as propounding any systematic political doctrine. He is not, for example, a pure libertarian, in the sense of consistently opposing big government and supporting individualism and free markets. However, he *can*, perhaps, best be seen as a libertarian critic; for, while not really offering a position of his own, his irreverent attacks on existing institutions reveal a strong antistatist stance.

Sharpe himself claims to be "anti the institution." He embellishes this comment by noting that "in the 19th century (English economist Walter) Bagehot said the reason freedom existed in Britain was that there were conflicting institutions, each of which was demanding the right of free speech against the other. I am against monopoly of power."

Some of Sharpe's political ideas clearly come from his own background. The British-born Sharpe attended a private school in Bloxham, England, until age 14, when he ran away to escape disciplinary action. He finished high school at Lancing, a distinguished private institution, and went on to Pembroke College, Cambridge, where he studied history and anthropology. Porterhouse College in Sharpe's *Porterhouse Blue* is almost certainly based in part on his Cambridge years.

In 1951, Sharpe moved to South Africa, where most of his father's family lived, and took a job as a social worker in a black township. Later, he opened a photographic studio in Pietermaritzburg. During this time, Sharpe wrote several plays, but the only one produced was *The South African*, which he has described as very heavy and full of symbolism. The play, critical of the South African government's apartheid policies, promptly led to his deportation.

Upon Sharpe's return to England, he took a job as a lecturer in history at Cambridge College of Arts and Technology, an institution

that provides basic technical qualifications along with liberal arts classes. This undoubtedly supplied him with the background for many scenes in his fifth novel, *Wilt*, in which England's education system suffers the brunt of Sharpe's barbs.

While still a teacher, Sharpe wrote his first novel, *Riotous Assembly*. Like his plays, it was sharply critical of the South African government. But in *Riotous Assembly* Sharpe abandoned the serious tone of his plays, turning instead to satire.

The book is an acidic criticism of the excesses of racist South African police. In the book, a wealthy white woman contacts the police station to explain that she has murdered her black cook, who was also her lover. In the course of the murder investigation, the police move into her house and the police Kommandant assumes dictatorial powers under the Anti-Terrorist Act.

The flavor of Sharpe's satire is captured in a passage in which the Kommandant is discussing the murder case,

> "You say here," continued the Kommandant, tapping the report, "that the Hazelstones are noted for their left-wing and Communistic leanings. I would like to know what made you say that."..."I checked the library. It's full of Communistic literature. They've got *The Red Badge of Courage*, *Black Beauty*, the collected works of Dostoyevsky, even Bertrand Russell's banned book, *Why I Am Not a Christian*. I tell you, they are all dangerous books."
>
> Kommandant van Heerden was impressed...."That seems conclusive enough," he said.

Though *Riotous Assembly* is sprinkled liberally with satire, it is also full of scenes of mass murder, incidents of extremely unsportsmanlike hand-to-paw combat between a policeman and an attack dog, dismemberment, torture, and other assorted mayhem. His second novel, *Indecent Exposure*, which also targets South Africa's police force, is equally full of violence.

This time Sharpe satirizes government surveillance in the name of anticommunism. The novel recounts the instigation of a wave of terrorism in Piemburg by the chief of police in order to root out (nonexistent) communist subversion. All the terrorists in Piemburg are employed by the police chief, and they are all unknown to each other. They succeed in destroying the town with the terrorist acts that each one commits in order to gain credibility with the terrorist community. Unfortunately for Piemburg, the terrorist community consists entirely of these police employees.

These two books on South Africa are not nearly as funny as Sharpe's later writings. He seems, in these early novels, to be motivated more by hatred of the object of his satire than by wanting to make people laugh. In describing South African racist police, he gives so many incidents of extreme violence that the books are more abuse than farce.

Still, the two books do mark a distinct break from Sharpe's heavy-handed attempts as a playwright. Despite the violence, the satire does succeed in arousing laughter. Indeed, both books were well liked by critics. But it was not until his third, *Porterhouse Blue*, that Sharpe attained widespread recognition and popularity.

Perhaps Sharpe's funniest book, *The Throwback*, is also the one that most explicitly challenges government institutions. It concerns the adventures of an unusual young Scottish man, Lockhart Flawse, whose antisocial grandfather raised him in a barren Scottish estate with very little human contact.

Lockhart's wife, Jessica, owns an inheritance of 12 upscale suburban dwellings, which she and Lockhart want to sell. But the houses contain tenants who cannot legally be evicted because of strict rent and tenure (residence) controls. Lockhart's methods of convincing his tenants to leave provide considerable amusement. His urban terrorism leads to a rabid dog on LSD, an antiterrorist team attacking a suburban golf course, and a vicar arrested for soliciting.

Lockhart and Jessica do succeed in selling their houses, after which they return to Scotland, pursued by Mr. Mirkin, a determined tax agent who thinks that "tax evasion is a crime against society of the very gravest sort. The man who fails to contribute to the economic

good deserves the most severe punishment." But "all is fair in love, war, and tax evasion." Little does the tax agent suspect what fate Lockhart has planned for him.

One classic Sharpe scene in *The Throwback* exemplifies the kind of jab he pokes at government. When Lockhart, fresh from the remote Scottish countryside, takes a job at a London tax accountant's, he puts into effect his eccentric grandfather's method of handling tax communications:

> *The old man had transacted all* possible business in cash and had made a habit of hurling every letter from the Income Tax Authorities into the fire without reading it while at the same time ordering Mr. Bullstrode to inform the bureaucratic swine that he was losing money, not making it.

Nearly as incisive in its attack on state power is Sharpe's *Blott on the Landscape* (which BBC television has serialized this fall with a script by Malcolm Bradbury). The novel describes the efforts of Maud Handyman, the sole heir of the Handyman family. She is aided by her implacable gardener, Blott, as they try to prevent the Ministry of Environmental Planning from building a highway through Maud's family estate.

As aristocrats and politicians battle over the road in uncontrolled Sharpean fashion, the Ministry of Environmental Planning sends in arch-bureaucrat Mr. Dundridge to mediate. Dundridge's socialism, Sharpe writes, "was embodied in the maxim, 'To each according to his abilities, from each according to his needs', the 'his' in both cases referring to Dundridge himself." Faced with blackmail, bribery, and seduction, Dundridge responds by sending squadrons of bulldozers on strategic military sorties throughout the aristocratic neighborhood where the road is to be built, leading to even more drastic counter-strategies by Lady Maud.

Sharpe's own experiences in Britain's school system provide him with another sort of cannon fodder for his satire. The protagonist of *Wilt* is Henry Wilt, an assistant lecturer at the Fenland College of Arts and Technology, a fifth-rate technician school. There Wilt inflicts compulsory liberal studies on gasfitters, plasterers, bricklayers, plumbers, and meatcutters on whom some of the more subtle points of literary interpretation are, to say the least, entirely wasted.

Wilt entertains fantasies of murdering his wife and carries them out in a fashion one night by dropping an anatomically detailed, life-size plastic doll dressed in his wife's clothing down a hole that is to be filled with cement the next morning by a construction crew. When his wife then disappears along with an unpleasant American couple of strange sexual preferences, he is arrested on a murder charge and grilled by the police.

But his 10 years of dealing with rowdies have made Wilt impervious to any form of intimidation. The financial rewards of teaching in the higher-education system may be few, but the payoff for Wilt in survival skills is considerable. He causes the police intense frustration as he sends them on false trails and refuses to bend under interrogation. Happily for fans of invincible Henry Wilt, he reappears in *The Wilt Alternative* and in Sharpe's latest farce, *Wilt on High.*

Other pedants targeted by Sharpe include Marxist professor Walden Yapp in *Ancestral Vices.* In keeping with his egalitarian vocabulary, Yapp refers to a dwarf in the novel as a P.O.R.G. (Person of Restricted Growth).

Though overtly antistatist themes abound in Sharpe's novels, his primary purpose is not to present a political message. Above all, Sharpe is trying to make people laugh. Thus his literary slapstick—farcical scenes with no satirical content—stems from his desire to be funny at all costs.

On this subject, Sharpe has said: "I want to free people from their inhibitions. . . . I'm not out to improve the world. I want to provide comedy, and I

Sharpe Novels

Riotous Assembly (1971)
Indecent Exposure (1973)
Porterhouse Blue (1974)
Blott on the Landscape (1975)
Wilt (1976)
The Great Pursuit (1977)
The Throwback (1978)
The Wilt Alternative (1979)
Ancestral Vices (1980)
Vintage Stuff (1982)
Wilt on High (1984)

Novelist Tom Sharpe: Murderous police officers, urban planners, bureaucrats, beware his satirical pen.

Blott on the Landscape, *Wilt*, *The Great Pursuit*, *The Throwback*, *The Wilt Alternative*, and *Vintage Stuff* have just been published in paperback by Vintage Books (New York), $3.95 each.

Paperback editions of *Riotous Assembly*, *Indecent Exposure*, *Porterhouse Blue*, and *Vintage Stuff* are available from Pan Books (London), 1.5 British pounds each.

British-published hardcover editions of all titles except *Wilt on High* are available from David and Charles (North Pomfret, VT).

Wilt on High was published this year by Secker & Warburg (London), 7.95 British pounds; a US edition is reportedly planned by Random House.

Photograph courtesy Vintage Books

want to be able to appeal to everybody, right across the board."

Yet there may be more to Sharpe's satire than he admits. Once, for example, in discussing *Riotous Assembly*, Sharpe alluded to Swiss author Friedrich Dürrenmatt's comment that comedy is the thing most feared by totalitarians, perhaps indicating a more serious purpose to Sharpe's farcical pen.

Sharpe rejects the view of writing, however, as an appeal to our finer moral sensibilities. This comes across most explicitly in *The Great Pursuit*, in which an aspiring writer of the moral novel is rudely awakened to the realities of profitmaking in the publishing business. He finds to his dismay that the moral novel just doesn't sell. Sharpe exposes his own opinion of moralizing literature by portraying a self-righteous moralizing literary critic as a thoroughgoing hypocrite.

Sharpe can be accused of being unsubtle, even tasteless, in his humor. Alan Franks of the London *Times* has aptly said that Sharpe is either "compulsive or repulsive depending on whether you are rudish or prudish." His novels contain large-scale carnage including explosions, torture, shootings, and explicit sexual humor.

Vintage Stuff, for example, was sufficiently full of death and destruction to lead one London *Times* reviewer to call it a "predominantly sombre thriller." The book involves the misadventures of the dull Rodney Glodstone, who fantasizes about a life more adventurous than the one he leads as a teacher at an uninspiring educational institution. A rival teacher, who is aware of Glodstone's fantasies, sends him fake letters from a nonexistent damsel in distress in a castle in Europe. Glodstone falls for the trap and sets off with a student, Peregrine Clyde-Brown, on an ill-fated adventure to an unsuspecting tourist resort in the south of France. It is here that the carnage starts, as Peregrine mistakes a French hotel for the headquarters of some international criminals. Among other things, Peregrine shoots an American professor point-blank in the forehead, blows up a squadron of police cars, and randomly takes potshots at a whole group of professors.

How can this sort of thing be funny? In part, because Sharpe is appealing to the teenager in all of us. But there is more to it than that. Sharpe's novels make a direct assault on society's pretensions. He sees laughter as a way to make people abandon their illusions about themselves.

Another reason we can laugh at Sharpe's sometimes grotesque accounts is that most of the people on the receiving end of the more-unpleasant incidents are experiencing the boomerang effects of their own avaricious schemes. However hard people in Sharpe's books try to get ahead by exploiting others, their plans backfire, and usually in a particularly nasty manner. This is not to ignore the fact that the body count in his novels includes many innocent bystanders who happened to get in the way of the plot. But the bad guys do kill considerably more innocent people than the good guys do.

Sharpe's characters do not live in the benign, morally balanced universe of some of the classic satirists, such as James Thurber, Mark Twain, and P. G. Wodehouse. But this is what makes his books so funny. He takes some of the unpleasant aspects of life and deliberately brings them out in the open in an unsubtle manner.

"I hope that when I prick the bubble of pretension I sort of whack it over the head with a sledgehammer," he has said. Let the pompous and the complacent beware when Sharpe is at work.

Robert Blumen is a student at Stanford University and was a summer intern at the Institute for Humane Studies in Menlo Park, California.

The Not-So-Great Society

Losing Ground: American Social Policy, 1950-1980

By Charles Murray

New York: Basic Books.
368 pp. $23.95

Civil Rights: Rhetoric or Reality?

By Thomas Sowell

New York: William Morrow.
162 pp. $11.95

Reviewed by Glenn C. Loury

Beneath the surface of our political life lie the governing ideas about society that infuse our moralistic passions of advocacy with purpose and plan. The intellectual paradigm of those who would use politics to do good determines both the objectives of such efforts and the means adopted to pursue them. In the field of social welfare policy, broadly construed, this paradigm is now in a state of flux, the subject of ferocious, frequently acrimonious, debate. The shrillness and emotion with which the debate is often waged reveal the magnitude of what is at stake.

At issue is the definition of the good society. This battle over ideas concerns the kind and extent of obligation that the members of a society properly bear toward its indigent and the methods best suited to discharge such obligation. At a more concrete political level, this debate is about whether the (largely liberal) policies of the past have "failed" and whether the current (essentially conservative) drift in social policy can "succeed."

Two events combine to make this debate among the most important of our contemporary political life. One is the election in 1980 of Ronald Reagan as president. The philosophy of his administration on social welfare matters varies so markedly from the previously prevailing consensus that his election occasioned extended discussion of the objectives and methods appropriate to social welfare policy. The other event is the continuation—indeed, the exacerbation in some instances—of the conditions of poverty and inequality that had provided much of the impetus for the development of that earlier consensus.

This is especially striking in regard to the situation of blacks. A profound transformation of the legal environment confronting black Americans has occurred. It began with the Supreme Court's 1954 *Brown* decision ruling out separate schools for black children. Through the enactment of the civil rights legislation of the 1960s and its subsequent judicial interpretation, a frontal assault on racial discrimination in education was extended to housing, employment, and electoral participation. Yet, by many social indicators, racial disparities are today as large as ever, with the social problems of low-income, innercity blacks approaching crisis proportions.

Two recent works, *Losing Ground* by Charles Murray and *Civil Rights: Rhetoric or Reality?* by Thomas Sowell, make important contributions to the debate on social policy. Each is strongly critical of the intellectual paradigm that has informed the profound changes in policy witnessed in the last two decades.

In *Losing Ground*, Charles Murray presents a history of social policy since 1950. His central argument is that, in many important ways, living conditions actually *worsened* for those who were most to be helped by the expansion of the welfare state. This occurred, his argument continues, in spite of general social and economic developments that augured well for the poor. Finally, this retrogression was due in part to the way in which efforts to assist the poor were designed and implemented.

As Murray puts it:

> The most compelling explanation for the marked shift in the fortunes of the poor is that they continued to respond, as they always had, to the world as they found it, but that we—meaning the not-poor and undisadvantaged—had changed the rules of their world. Not of our world, just of theirs. The first effect of the new rules was to make it profitable for the poor to behave in the short term in ways that were destructive in the long term. Their second effect was to mask these long-term losses—to subsidize irretrievable mistakes. We tried to provide more for the poor and produced more poor instead. We tried to remove the barriers to escape from poverty, and inadvertently built a trap.

Losing Ground is an effort, largely successful in my judgment, to document this retrogression, to support the assertion that it stems from our having "changed the rules" for the poor and, in the final chapters, to urge a rethinking about what are the appropriate and feasible objectives of social policy. [See the excerpt from the book that begins on page 32 in this issue.—Eds.]

The case Murray makes for retrogression in the circumstances of the poor is compelling. Consider such indices of well-being among poor blacks as the unemployment and labor-force participation rates among young males, the incidence of single-parent families, or the illegitimacy rate. Murray shows that if in 1966, using the experience of the previous 15 years as a guide, one were to have forecast the values that in 1980 would be assumed by such indices, even under the most pessimistic scenario one would have predicted a situation for these people vastly better than that which, in fact, obtained by 1980. This notwithstanding the fact that we have witnessed an enormous expansion of expenditures by the federal government aimed at *improving* the welfare of the innercity poor. The paradox deepens when one considers that during the same period there occurred major improvements in the occupational and earnings status of *employed* blacks.

The full-scale attack on discrimination, together with the expansion of opportunities for blacks associated with affirmative action in education and employment since 1966, has led to a dramatic advance in the status of employed blacks, even as those on the margins of society have fallen further behind. Murray attributes this to the fact that, while their opportunities were enhanced, the incentives affecting the behavior of *middle-class* blacks were not significantly altered by the expansion of federal efforts that began in the mid-'60s. However, the delicate system of reward and punishment regulating the behavior of *poor* blacks was profoundly and, over the long run, detrimentally changed by the interventions undertaken on their behalf.

Over the last 30 years, the civil rights revolution has been transformed into an instrument of special pleading that is increasingly neither "civil" nor "right."

Establishment of this link between the liberal ideas guiding and justifying expanded assistance to the poor, and the diminished sway among the poor of internal systems of behavior-regulating sanctions and values, is the crux of Murray's contribution. His argument is subtle and persuasive, ranging far beyond the by-now-too-familiar epithet "welfare destroys work incentives." Murray is concerned to show that, more than work incentives, the very extent to which the poor could feel themselves responsible for and in control of their own destinies was systematically undermined by social policy in the areas of income maintenance, criminal justice administration, and education. His controversial thesis will become, I predict, the focal point of heated debate in the months to come.

In many ways—unemployment, single-parent families, the illegitimacy rate—living conditions actually worsened for those who were to be helped by the welfare state.

No stranger to ferocious, acrimonious controversy over social policy, economist Thomas Sowell has invited more of the same with his extended essay on civil rights policy since 1954—*Civil Rights: Rhetoric or Reality?* He evidences acute awareness of this when, in the preface, he states: "Some books are written for the pleasure or the zest of it. Other books are written as a painful duty, because there is something that needs to be said—and because other people have better sense than to say it."

What Sowell by admission lacks the good sense to avoid saying is that the original thrust of the civil rights revolution—as exemplified by that "landmark victory over some of the ugliest forces buried in American history," the Court's decision in *Brown*—has over the past three decades been transformed into an instrument of special pleading that is increasingly neither "civil" nor "right." Sowell argues that there has emerged a troubling system of thought about these matters, widely embraced by advocates of the cause of women and minorities, which he calls "the civil rights vision."

This vision consists of a set of general principles of morality and of causation distilled from the unique, painful experience of black Americans in the century after emancipation. In brief the generalizations are: (1) most differences in status between groups are due to discrimination; (2) those who think otherwise necessarily attribute these differences to innate inferiority of the lagging groups; and (3) the best way for those lagging groups to redress the differences is through political activity.

These principles have, according to Sowell, come to be applied wholesale to a bewildering array of groups—women, the aged, the handicapped, homosexuals, non-European immigrant groups—whose circumstance and historical experience bear little relation to the "slavery, Jim Crow laws, and some of the most virulent racism ever seen anywhere" that blacks have endured. What began as a long-overdue legal response to the special case of blacks has, Sowell argues, evolved into a system of thought by which can be explained and remedied economic disparity between white males and any group of individuals claiming to have encountered discrimination. What Sowell means by the "civil rights vision" is the presumption, derived from the history of blacks, that any difference of outcome between groups constitutes a moral indictment of the social order, legitimizes intervention through politics aimed at

securing "equity," and requires condemnation of any principled opposition to such intervention as racist or sexist or homophobic.

An aspect of this worldview of particular concern to Sowell is the notion that political activity is the preferred method by which to seek improvement in the condition of a "disadvantaged group." He notes that in the history of the United States and throughout the world, despised minorities have many times advanced in spite of, not by virtue of, the exercise of state power. Moreover, the unhappy consequences that have too often accompanied the politicization of ethnic differences in countries like Northern Ireland, Lebanon, Malaysia, Sri Lanka, and Cypress cause Sowell to warn that there is great danger to the republic in making ethnic-racial differences a permanently divisive feature of politics.

A pall of pessimism hangs over this essay. The author virtually despairs of the possibility of constructive, civil discourse on these vital matters. He seems to think that we have stepped onto a "slippery slope" from which logical argument, such as that made in this work, will be inadequate to extricate us. One can only hope he is wrong.

It has not been possible in such a brief space to convey a sense of the intellectual vitality with which these authors argue their respective cases. Suffice it to say that, by calling into question what had become an almost automatic equation of good intentions with virtue, they have advanced the debate on social policy in the United States, to the benefit of us all. It is to be hoped that in the discussion of these matters certain to ensue, the real-life circumstances of those whom we seek to help will carry at least as much weight as the desire to defend a set of ideas whose time may well have passed.

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Learning to Live with the Bomb

Weapons and Hope
By Freeman Dyson
New York: Harper & Row.
340 pp. $17.95

Reviewed by John McCarthy

Nuclear war is like cancer. It's very bad, but none of the recipes for prevention inspire confidence. Maybe there are a few actions that will reduce the risk, but mostly one just hopes. At least with cancer there are statistics, but one can't even know the odds of getting into a nuclear war or of surviving it.

Freeman Dyson is a well-known theoretical physicist who in the 1940s helped found quantum electrodynamics, a theory whose numerical answers agree with experiment to 11 decimals. Dyson has written extensively, sensibly, and imaginatively on human expansion into the universe and other futurist topics.

Now there is *Weapons and Hope*, first published as a four-part series in the *New Yorker* in early 1984. Dyson discusses various approaches to reducing the danger of nuclear war. He doesn't guarantee any of them, but he does have something new to say. His main goal, besides advancing his own ideas, is to lead the proponents of the two main tendencies—rearmament and unilateral disarmament—to at least understand one another.

Dyson classifies attitudes toward nuclear weapons into those of "*warriors*" and of "*victims*." He characterizes warriors as valuing coolness and accurate analysis and being fascinated with the tools of war. He uses many examples from the two world wars to illustrate the type.

His characterization of the ideology of victims, however—even apart from the tendentiousness of the term—is murky. The only example he gives is Helen Caldicott, the founder of the antinuclear group Physicians for Social Responsibility and the author of the recently published *Missile Envy*. Caldicott, he says, is characterized by moral force accompanied by fuzzy numbers. But she has always struck me as a kind of victim, not a warrior.

This is a quibble, however. *Weapons and Hope* has strong merits, including Dyson's emphasis on irreducible uncertainties: We can't know for certain how much of our society could survive nuclear war. Nor can we know how effective various weapons would be.

There have been numerous proposals for dealing with the prospect of nuclear war. Dyson collects them into seven different strategies.

One strategy is unilateral disarmament. Dyson is skeptical. He was a pacifist until World War II began in England. He is inclined to believe that unilateral disarmament would be good only if everyone were a Gandhi, so he reluctantly gives it up.

He thinks the Soviets couldn't occupy the United States successfully even if the country were to disarm, but he doesn't discuss how a disarmed United States might deal with methods that the Soviets have actually used in the past to get in control of recalcitrant populations. These include, for example, massive forced exchanges of

population, the taking and killing of large numbers of hostages, and the destruction of villages where resistance was strong. Dyson also neglects the fact that surrender wouldn't assure even peace, since communists are just as quarrelsome among themselves as with others. We might finish as expendable cannon fodder in a nuclear war among communist powers.

A second strategy, as prominent in debate as unilateral disarmament, is mutually assured destruction, which has earned the acronym MAD. Dyson rejects it.

The MAD policy assumes a strategic balance in which both the United States and the Soviet Union maintain the ability to destroy each other's society with nuclear weapons. Peace is thus to be assured by the threat inherent in each side being able to inflict "unacceptable damage" on the other. MAD advocates consider the ability to defend one's own country against attack or to destroy the other side's military capability as irrelevant. Indeed, they even consider it harmful because destabilizing, inasmuch as this ability would undermine the other side's capacity to do unacceptable damage. MAD has been a major component of American policy since the 1960s.

MAD appeals to the mathematical games theorist, because it treats the West and the Soviet Union symmetrically and requires no analysis of the actual characteristics of either society. As Dyson points out, however, the *Soviets* don't follow a MAD policy. Their doctrine is that if war is inevitable, they will attack the opposition's military capability in order to protect themselves. He contends that this more-conventional military attitude is morally less evil than mutual assured destruction. Our own military men also seem to prefer this sort of "counterforce" strategy, and the actual strategic posture of the United States has always included some counterforce capability alongside the reliance on MAD.

A third approach to nuclear weapons is simply to accept nuclear war fighting. On this view, nuclear war is like other war, only worse. If one has to fight, one strives to knock out the enemy armed forces, minimize damage to one's own forces and society, and force a surrender. This is, in fact, the Soviet doctrine.

Dyson points out the enormous uncertainties involved in a major war with weapons that have never been used. For this reason, he regards as unrealistic any doctrine that holds nuclear war to be survivable. He doesn't, on the other hand, advance the common "peace movement" argument that the doctrine actually *encourages* US leaders to start a nuclear war.

Emphasizing the uncertainties about the effects of any nuclear war, Dyson suggests that civil defense measures would be good, although he says they can't be counted on. He admires the civil defense measures taken by the Swiss to protect themselves, but he suggests that they would be unacceptable in the United States, because if we prepare to survive nuclear war, the Europeans will feel left out.

A fourth strategy outlined by Dyson is limited nuclear war. The Soviets have attained superiority in conventional (nonnuclear) weapons compared to Europe, and Western European governments have been unwilling to use their greater population and industry to match the Soviets in this arena. NATO therefore plans to meet a Soviet tank-led assault with tactical nuclear weapons.

This has been part of Western preparations since the 1950s, but the Soviets have often been able to deter preparations by their threat that any use of nuclear weapons by a European government would be met with a massive nuclear attack on all their enemies, including the United States. The Soviets' ability to make good on this threat has greatly increased in recent years. Dyson therefore considers limited nuclear war unrealistic.

Nonnuclear resistance represents a fifth strategy. Dyson hopes for the development of conventional weapons, "precision-guided munitions," that would make it possible for us unilaterally to give up nuclear weapons. He ignores the possibility that still-further technological developments might restore the advantage to the nuclear side, so such renunciations could only be an expedience, not a matter of principle.

A sixth strategy, defense unlimited, involves building shelters as the Swiss have done and developing means for shooting down missiles, including space-borne and nuclear antiballistic missiles (ABMs). Its opponents claim it is expensive, ineffective, and destabilizing (à la MAD). Their worst-case scenario is that the Russians might suddenly decide that this defensive array is just about to become so effective that we would be able to destroy them with impunity and they therefore attack us. In fact, however, as Dyson notes, neither the United States nor the USSR could ever be sure about the effectiveness of defensive measures.

In my opinion, this uncertainty would dilute any impulse toward desperate measures. Insofar as it turns out to be likely to work at an affordable cost, it seems like a good option.

Finally, there is what Dyson calls the "live-and-let-live" strategy. He ascribes this concept to the late Donald Brennan, who called it "parity plus damage-limiting" and put it in opposition to MAD with the slogan, "We prefer live Americans to dead Russians." Dyson summarizes it as, "We maintain the ability to damage you as badly as you can damage us, but we prefer our own protection to your destruction." He likes it. Put this way, it's the motherhood among the strategies. It will be endorsed by the Reagan administration even with the corollary that, insofar as we develop the ability to protect ourselves, we can forgo ability to damage the Soviet Union.

Dyson sees good in each of the last three strategies, perhaps preferring live-and-let-live for now, while hoping that nonnuclear resistance will become feasible. The value of Dyson's book is not that he builds a case for any one strategy guaranteed to protect us from nuclear devastation—there is no such strategy. Rather, it is that he discusses the options in a way that allows thoughtful adherents and opponents to consider the merits and demerits of their own and others' positions.

Yet along the way Dyson ignores some important questions. What *is* the *present* military situation? The Reagan defense build-up is based on the opinion that recent years have seen the Soviets acquire a large military advantage and that rearmament is required to avoid tempting them to attack the United States. Is that right? I have no independent opinion, but I think the persuasive advocates of that position, such as Edward Teller, are thinking about the important question.

What characteristics of communism are relevant to living in the same world with nuclear-armed communist powers? Dyson doesn't mention communism in his index, and I could find only one peripheral reference to it in the entire book. His chapter on the Russians attributes their aggressiveness and suspicion to their occupation by the Mongols from the 12th through the 16th centuries, a theory he got from his colleague at the Institute for Advanced Study, George Kennan. A Russian exile to whom I mentioned this jeered, "What? Did he forget to mention swaddling clothes?" referring to the recently popular psychological theory that the Russians are rigid because they are wrapped tightly in their blankets as infants. But then, Dyson quotes Kennan approvingly with the opinion that we pay too much atten-

tion to exiles and dissidents.

Since World War II, a number of communist powers have appeared, many not under Soviet control. They share its unpleasant characteristics—aggressiveness, secretiveness, suppression of independent opinion, no orderly way of transferring power, economic inefficiency, and a low threshold for committing genocide. It wasn't the Russians who killed a quarter of the population of Cambodia. This suggests that it's not the Mongols who are to blame; it's communism.

Ignoring such facts leads to error in dealing with the nuclear-war problem. For example, Dyson thinks that we missed an opportunity in the late '40s to strike an agreement with the Russians about nuclear weapons that might have established some measure of trust. He doesn't even mention Stalin and deal with the evidence that Stalin never trusted even his fellow communists and always strove to get them under his thumb.

Communist doctrine as well as the personal characteristics of the leaders of these dictatorial regimes plays an important role in limiting the agreements that are possible. Most likely we cannot achieve substantial mutual trust with communist countries unless their societies evolve into more humane forms. But it may be that some of them will evolve into even more aggressive forms. Here Dyson should apply his own doctrine of living with uncertainty.

The fact is that we have avoided nuclear war for 40 years with a wide variety of policies. We should not let anyone stampede us into desperate measures of either military action or unilateral disarmament. Most likely nuclear peace will continue, but we will not soon achieve a world in which we will really feel safe. Dyson's book contributes to the moderation needed to live in this uncertain world.

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The Road to Freedom: F. A. Hayek's Intellectual Journey

By Jeremy Shearmur

Friedrich Hayek: Economist, political philosopher, grand old man of the classical liberal tradition wherein liberalism had to do with freedom.

Ten years after receiving a Nobel Prize, economist and political philosopher Friedrich Hayek is the object of more scholarly attention than ever before. But who is Hayek? Why is he the object of all this attention? And is he of importance to anyone except the professional academic?

Hayek is the grand old man of the classical liberal tradition in economics, where *liberal* has to do with freeing up the socioeconomic order. He has not only received a Nobel Prize but this year, at the age of 85, was awarded the Companion of Honour, a prestigious British title. In addition to being studied by scholars, his work is also often cited as an important influence on the thinking of politicians, including British Prime Minister Margaret Thatcher and US President Ronald Reagan. Even the popular media—witness *Time* in August 1984—are alert to Hayek's contributions. And so it is interesting to trace Hayek's intellectual development, to see how he came to gain such influence.

In some autobiographical remarks in a recent collection of his essays, *Knowledge, Evolution, and Society*, Hayek notes that as a young man he was a socialist. But in his native Vienna in the 1920s, he came into contact with Ludwig von Mises, an economist in the Austrian tradition, and read Mises's critical work *Socialism*. Hayek thus became convinced that socialism could not achieve the desirable social consequences for which he had valued it.

Hayek was working at the time on technical problems in Austrian economic analysis. As a result of his work, Hayek was invited to give a course of lectures at the London School of Economics and subsequently to become the Tooke Professor of Economic Sciences and Statistics.

In his inaugural address at the London School of Economics, "The Trend of Economic Thinking," delivered in March 1933, he discussed general issues of social philosophy. The mark that Mises made upon him can be clearly seen in this address. For Hayek, while indicating that his fundamental values had not changed very much, there argued not for socialism but for classical liberalism. Indeed, he expressed some embarrassment that he found himself substantially in agreement about *means* with conservatives whose *ends*, or goals, he did not share at all.

The address anticipates themes that characterize Hayek's later work. First, one sees that his attachment to (classical) liberalism arose not from a belief in individual rights but from a conviction that liberalism would deliver desirable consequences: that it would lead to the well-being of mankind. While Hayek later adds something approaching a theory of individual rights, it is always argument about the *consequences* of social arrangements that is characteristic of Hayek's work.

Second, Hayek is concerned about the way in which the institutions of a liberal society may be vulnerable. In a liberal society, public benefits flow from the pursuit, by individuals, of their self-interest. But unattractive self-interested behavior may be much more visible than are those benefits. Hayek thinks that liberalism is the best form of social order attainable, but he does not think that it is perfect. Hence, he is concerned lest citizens' awareness of its imperfections lead them to abandon it for the *promise* of something better.

Third, Hayek's inaugural address follows Carl Menger, the founder of the Austrian School of economics, in emphasizing the importance of

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human institutions that are organic in character—the products of human action but not of human design. He suggests that we have inherited various institutions that are valuable but whose functions we do not understand. Thus, we should be cautious in our criticism of institutions and customs (for example, the market economy and common law) whose useful functions we may not fully appreciate.

The character of Hayek's liberalism perplexed British liberal economists. They found it a strange mixture of the economic ideas of classical liberalism with the illiberal social theory of Edmund Burke. But it has also perplexed many conservatives. Over and over again, they have tried to claim Hayek for themselves, only to be rebuffed, as in the appendix to his *Constitution of Liberty*, entitled "Why I Am Not a Conservative."

Shortly after his appointment to the London School of Economics, Hayek edited a collection of papers by various authors on the problems of economic calculation under socialism. It included the argument by Mises that had convinced Hayek himself that collectivist economic planning is a recipe for disaster. The collection also included a critical account by Hayek of some British socialists' attempts to answer the argument. The debate (which continues to this day) sheds light on Hayek's views and their development, for there emerge two themes—and a problem—that mark his long and fruitful career.

The first theme, set out in Hayek's 1944 bestseller, *The Road to Serfdom*, is that many of the features of "totalitarian" regimes are the unintended consequences of the attempt to put "socialist planning" into operation. Hayek became convinced that it is impossible to get the kind of agreement about social priorities that centralized socialist planning requires. Such planning may be attempted, but the attempt leads to problems for democracy. Democratic bodies cannot effectively resolve such disputes, and their failure leads to demands for "strong men" and for governments that will get things done: authoritarian governments.

The second theme to emerge

In *The Road to Serfdom*, Hayek wrote that many features of totalitarian regimes are the result of trying to put socialist planning into operation...

from the debate over economic planning was a new research program for economics that challenges the prevailing "general equilibrium" model of a market economy. In this idealized model, all supply and demand and prices and costs are brought into balance by repeated adjustments on the part of market participants. In the resulting state of equilibrium, all resources are allocated in the most efficient way possible. This model is a widely used tool of economic analysis and is often called upon as a standard by which to compare the results of various socioeconomic systems.

Such a view of the market *might* be argued to be implicit in Mises's initial criticism of socialist planning. And some socialist writers argued, in turn, from such a viewpoint, maintaining, against Mises, that the task of the central planner could at least in principle be accomplished by solving a mass of mathematical equations. This would simulate the result that, according to general-equilibrium theory, is achieved by the market.

Hayek, however, in his response to these writers, came to develop certain reservations about general-equilibrium theory itself. First, Hayek suggested, certain kinds of information emerge only through on-the-spot experience or through the fact that those with better knowledge win out in competition with others in the marketplace. He subsequently developed these ideas, arguing that markets are able to make use of knowledge that is essentially tacit in character—knowledge *how* rather than knowledge *that*; knowledge of a kind that would simply not be available to the central planner.

Then, in his 1937 article "Economics and Knowledge," Hayek also questioned economists' use of the idea of general equilibrium as an idealized end-state. He suggested that they should instead see markets as generating a *process* through which the plans of individuals are brought into better coordination with one another. This, together with Hayek's subsequent writings on the theme of competition as a process of discovery, has served to inspire much recent work within the Austrian economics tradition.

But what of the *problem* to

...but John Maynard Keynes countered that everything would be all right so long as power were in the hands of the right people—such as himself!

which I referred earlier? It is generated by these very same developments. For while Hayek has some strong arguments against central economic planning, one might ask: what has he to say to those who do not want to *replace* the market but want merely to have the government intervene to further various goals, making sensitive use of market mechanisms? Hayek does respond to some such views—for example, to proposals that government should promote the concentration of industry. But in arguing that such proposals would lead to the misallocation of resources, he seems to presuppose the very general-equilibrium model that he was calling into question.

The problem is thus whether arguments against piecemeal governmental intervention can be derived from the new and interesting direction in which Hayek has led research in economic theory. This is a particularly pressing problem for Hayek, given the role of consequentialist arguments in his own case for liberalism. For Hayek, as noted earlier, moved toward classical liberalism because he became convinced that its consequences would be superior to those of socialism or "planning."

During the course of World War II Hayek wrote *The Road to Serfdom* as a consciously political work. But such a description diminishes it. Though it is a tract for the times, it is also a scholarly achievement of the first order, presenting a defense of liberalism together with an attack on central economic planning. It was written primarily for a British audience, who received it quite well; in the United States the book was a runaway popular success. The academic reaction, however, was much less friendly.

One particular reaction was most interesting: that of the British economist whose ideas would come to dominate postwar economic policy in the West—John Maynard Keynes. He accepted that Hayek had called attention to a problem, but countered that everything would be in order provided that power was in the hands of the right people—people whose hearts and minds were in the right place; people such as himself!

Much of Hayek's subsequent work presents an alternative to such an elitist liberalism. Hayek began paying increasing attention to the theme of the rule of law, attempting to formulate a version of liberalism that would avoid the need to give discretionary powers to the "right people." He also developed ideas about the limitations of human reason and tried to explain more cogently how we should approach inherited institutions so as to avoid damaging what may be worth preserving in them.

After World War II, Hayek moved from Europe to the University of Chicago, where he returned to an old interest of his: the psychology of perception. He set out his ideas in *The Sensory Order* (1952), perhaps the most difficult of Hayek's books. In it, he develops a theory about the role in perception of abstract and unconscious rules and procedures. From these ideas, Hayek draws support for his views about the limitations of human reason and implications for the methodology of the social sciences.

The phenomena that the social sciences are typically trying to understand, he argued, are largely the unintended consequences of human action. Moreover, they are complex (like the weather in the natural world), not simple (like mechanics, which can be comprehended with some idealization in simple mathematical equations).

In the social world, Hayek suggests, complex phenomena emerge from the interaction of individuals whose behavior is governed by rules and procedures of the kind discussed in *The Sensory Order*. If these complex results of human interaction are approached the same way as simple phenomena in the natural world, the wish to have exact knowledge—and to be able to make detailed predictions—will be frustrated. And the sort of knowledge that *is* attainable may be overlooked—knowledge that Hayek refers to as "explanation of the principle."

For Hayek, more than just methodology is at stake. If we believe that we have such knowledge, we will overestimate our ability to control social phenomena. We may also ignore the merits of the social institutions illuminated by theories such as Hayek's own.

Hayek's time in the United States culminated with the writing in 1960 of what may be his major work, *The Constitution of Liberty*. Hayek here restates the principles of classical liberalism and applies them to policy issues. He is also clearly concerned with the freedom of the individual not just as a means to an end but as something that demands respect for its own sake.

Even here, however, his ideas differ from those of many American individual-rights theorists. Hayek starts with the state as a received institution and would constrain it to minimize coercion, rather than taking individual rights that may not be infringed as the starting point and asking what role the state may then legitimately play. Hayek's concern with the rights of the individual does go beyond his earlier, more utilitarian approach. But he does not provide arguments for his new views that would have cut much ice with his own, younger, socialist self. In addition, his philosophical treatment of coercion leaves a lot to be desired. And his discussion of policy issues allows a bigger role for the state than many advocates of limited government would be happy with. He even seems willing to defend a measure of compulsory military service, at least if the alternative is life under constant threat of arrest by an arbitrary power.

Hayek does not rule out the idea of collective responsibility for aspects of individual well-being. And he accords the state limited responsibility for the relief of those in distress and for ensuring that individuals make provision for their own old age and infirmity, responsibility for ensuring that the young be educated, and diverse responsibilities in areas such as building-safety regulations. Yet he also considers—in some detail—how such tasks might be performed with the least possible coercion or damage to the well-being of individual citizens.

After *The Constitution of Liberty* was published, Hayek returned to the German-speaking world. He did not desert the cause of liberty in Britain and the United States, however, and published two collections of essays, *Studies in Philosophy, Politics, and Economics* (1967), and *New Studies* (1978), both of which contain many interesting developments of his work. In addition, from 1973 to 1979 he published a trilogy on political philosophy: *Law, Legislation, and Liberty*. This represents an impressive restatement and development of his views, in which he grapples with the

Hayekiana

Knowledge, Evolution, and Society
By F. A. Hayek
London: Adam Smith Institute
Distributed by Laissez Faire Books (New York)
57 pp. $4.95 paper

Money, Capital, and Fluctuations
By F. A. Hayek. Edited by Roy McCloughry
London: Routledge & Kegan Paul;
Chicago: University of Chicago Press
196 pp. $20.00

Hayek: His Contribution to the Political and Economic Thought of Our Time
By Eamonn Butler
London: Temple Smith
Distributed by Laissez Faire Books (New York)
168 pp. $7.95 paper

Hayek on Liberty
By John Gray
London and New York: Basil Blackwell
230 pp. $24.95

The Essence of Hayek
Edited by Chiaki Nishiyama and Kurt Leube
Stanford: Hoover Institution Press
405 pp. $27.50/$13.50

The Political Economy of Freedom
Edited by Kurt Leube and Albert Zlabinger
Munich: Philosophia Verlag (forthcoming)

Hayek's "Serfdom" Revisited
By Norman Barry et al.
London: Institute of Economic Affairs
Distributed by Laissez Faire Books (New York)
176 pp. $8.95 paper

The Fatal Conceit
By F. A. Hayek
London: Routledge & Kegan Paul;
Chicago: University of Chicago Press (forthcoming)

problem that political institutions designed to check the excesses of government have failed to achieve this task. The work finishes with a proposal for a new, liberal constitution.

The works of Hayek's later years contain many thought-provoking ideas. They also show an increasing tendency to stress the importance of inherited institutions and, to back this up, give increasing weight to social evolution. He sketches some controversial ideas about group selection that attempt to explain how we come to possess institutions that are not designed to have but do have desirable functional properties. Those groups who happened to adopt codes of conduct that proved useful have prospered, he suggests. They may also, in time, be imitated by those who were not, initially, so fortunate. Such "evolutionary" themes play an even larger part in Hayek's forthcoming work, *The Fatal Conceit.*

These, then, are some of the themes of Hayek's work. But do they merit the attention they are currently receiving? I believe they do, not just for the solutions that they offer but also for the problems they raise. For Hayek has put his finger on countless issues that are vital to the defense of liberty.

Any successful defense of classical liberalism must involve arguments both about individual rights and about the consequences of a free social order. Hayek's work has made contributions in both areas. But the difficulties in his views also provide a challenge to a new generation of libertarian scholars.

Yet to be resolved, for example, is the tension that arises between Hayek's research program in economics and the ability of the economist to make specific claims about the welfare consequences of a market order. As to rights, Hayek defends the importance of minimizing the coercion of the individual, but he does not present much argument that would impress the person who thinks that, should they clash, social utility is more important than individual rights. On another front, Hayek's ideas about the evolutionary origins of ethical codes call into question why anyone *should* comply with these codes.

Hayek's work gives rise to

many other interesting problems, too. His ideas about the limitations of human reason and about the importance of custom and tradition are striking. But they seem at times to call into question our ability to accomplish even the rational appraisal and improvement of our institutions—let alone our ability to engage in the large-scale constitutional reforms that Hayek himself favors.

That such problems arise is in fact a sign of the strength of Hayek's views, not of their weakness. For Hayek's work brings out important issues that are masked in the work of lesser writers.

Moreover, there are arguments, especially about learning and the utilization of knowledge, that constitute formidable additions to the liberal arsenal. His discussion of freedom as the ability of individuals to utilize their own skills and knowledge and act on their own plans and judgments is especially important. It is a vital rallying cry in a world such as ours, where paternalists and bureaucrats are imposing their own narrow vision and ignorance on the lives of their fellow citizens.

Hayek's views have practical use, too. For example, I

I know one entrepreneur led by Hayek's work to select a field in which he has been able to work with great success.

know one entrepreneur who has been led by Hayek's work to select a field in which he has been able to work with great success. For he has been led, by Hayek's work, to the perceived view that any area that has been dominated by government, rather than markets, is bound to be grossly inefficient and thus to be full of useful opportunities for achieving private gain and the public good! Similarly, in August 1984 the *Wall Street Journal* cited Robert Cross, the manager of system marketing at Delta Airlines, as having been inspired in the development of a new and very effective system of seat pricing by some of Hayek's work on prices and knowledge.

Given, then, the character and importance of Hayek's ideas, it is not surprising that his work is gaining so much attention these days. A whole range of new books is available. Hayek himself is not an easy read. But relief is at hand, as British economist Eamonn Butler has provided a readable introduction to the central themes of Hayek's writings in his *Hayek: His Contribution to the Political and Economic Thought of Our Time.*

Butler gives a brief but useful sketch of Hayek's life and work and then some particularly good surveys of his ideas on the market process, socialism, social justice, and the character of a liberal order. His book will serve as a useful tool for anyone who wants an accessible overview of Hayek's main ideas.

The Essence of Hayek, edited by Chiaki Nishiyama and Kurt Leube (Hayek's former assistant), is a selection of Hayek's writings chosen to illustrate various major themes in his work. It includes some well-known papers, such as his "Individualism: True and False," some of Hayek's essays in the history of ideas, chapters from some of his books, and also some recent less-formal presentations.

The latter provide a useful introduction to his views, although they lack the richness of some of his more substantial works. On the other hand, some of the chapters from Hayek's books—notably those from *Prices and Production* and *The Sensory Order*—may prove a little too rich for newcomers to Hayek's work. Still, some problems of this sort are inevitable in any such selection, and this one makes available a lot of good material by Hayek.

The collection contains a helpful biographical introduction by Leube, which is followed by some useful suggestions for further reading. It also contains an introduction by Nishiyama that, long and often obscure, is a disaster as an introduction.

Leube is also the coeditor, with Albert Zlabinger, of a volume designed as a tribute to Hayek, *The Political Economy of Freedom.* The contributors include both philosophers and economists.

Among the pieces that especially impressed me were an urbane essay by William Bartley, in which he explains that he has learned from the philosopher Karl Popper that one never knows what one is saying and from Hayek that one never knows what one is doing. He then proceeds to use ideas from Popper and Hayek to criticize Karl Marx's central theme of alienation. Bartley's piece suffers a little

from being an attack conducted from the outside, thus doing Marx's views a *little* less than justice before moving in for the kill. (This is much more true, however, of a critical piece on Marx by Tibor Machan, which reads a little as if he had been let loose with a dictionary of quotations from Marx.)

Israel Kirzner, in what is perhaps the best piece in the book, discusses two different ways in which Hayek's ideas about the role of prices in conveying information may be interpreted, depending on whether or not a system is in equilibrium. Other contributors include Thomas Sowell with a well-written informal piece asking *whose* freedom has been adversely affected in our society (not the intellectuals who advocate more planning), Leland Yeager with a spirited piece in defense of utilitarianism (although his case is weakened by his not distinguishing between consequentialist arguments in general and utilitarianism), and Laurence Moss with an able application of *The Road to Serfdom* to current proposals for government "reindustrialization."

The British Institute of Economic Affairs has also published a volume of essays on Hayek's work, *Hayek's "Serfdom" Revisited.* The contributors (of whom I am one) have all written directly on issues emerging from Hayek's famous tract. An Icelander, Hannes Gissurarson, writes of the varied responses to Hayek's book when it was first published (and for which he recently won the Mont Pelerin Society's Olive W. Garvey prize). Norman Barry addresses the interesting tension, in different strands of liberalism, between an emphasis on the historical role of ideas and on people's interests. John Burton argues for the instability of that "middle way" between socialism and liberalism that, as he says, "has been widely adopted in the Western world because it sounds inherently reasonable and judicious." Karen Vaughn offers some reflections on the decline of liberal regimes but concludes suggesting that this decline can be reversed by ideological activism. This attractive short volume is prefaced by some fascinating historical reflections, in part autobiographical, on Hayek and liberalism in Britain, by Arthur Seldon of the Institute of Economic Affairs.

John Gray is another contributor to *Hayek's "Serfdom" Revisited,* discussing some criticisms of Hayek's classic. Gray has also written a magnificent book, *Hayek on Liberty,* which grew out of a long article on Hayek written for the journal *Literature of Liberty.* The book contains a revised and expanded version of the *Literature of Liberty* bibliography of Hayek's work and of writings—published and unpublished—about him. For this reason alone it would be valuable to Hayek scholars. But Gray has also given us an impressive and serious study of Hayek's work.

Gray's book, while not uncritical, presents a sustained case for the importance of Hayek's work. He is a most-stimulating writer, although at times a little opaque—I was in places left wondering whether he himself is clear about what he wants to assert. He also loses sight, in offering his interpretation of Hayek's thought, of some important aspects. One would not realize, for example, just how large a role Hayek is at times prepared to allow the state. And as a noneconomist, Gray is surprisingly willing to take Hayek's economic ideas as uncontroversial.

If today's free-market scholars display half of Hayek's energy and originality, the world will be safer for liberty.

Still, it is a first-rate piece of work and will undoubtedly be the starting point for academic work on Hayek for many years to come. And non-academics should not hesitate to skip over material that seems difficult to understand (some of it is!) or take up Gray's original piece in *Literature of Liberty* for an easier read.

Two other recent books are also worth mentioning. Both consist of essays by Hayek himself. The British Adam Smith Institute has published *Knowledge, Evolution, and Society,* a small collection of Hayek's lectures, which constitute popular presentations of his recent ideas. Though they do not contain much that is new, they are very readable. Moreover, they contain interesting biographical information about Hayek's early socialism and the impact of Ludwig von Mises on Hayek's work.

The other volume, *Money,*

Capital, and Fluctuations, is a collection of Hayek's early papers on economics, newly translated from the German. It will interest those with a special concern with the development of Hayek's views. The introduction by Roy McCloughry, who has written a dissertation on Hayek's economic thought, unfortunately does not explain the intellectual context of these pieces, limiting their ready appreciation to those already familiar with this period in the history of economic thought.

In reviewing Hayek's work, and the scholarly reactions to him, we cannot but appreciate the contribution that he has made to liberalism in our century. Given his European background and his socialist origins, some aspects of his thought may not appeal very much to an American audience. For free-market individualism in the United is more associated with a rights-based approach, and even Austrian economics has been more associated with Mises than with Hayek. But Hayek's work, even where it is not fully successful, represents a valuable resource and a starting point for new work. And if free-market scholars of this generation can only display half the energy and originality of Hayek's work, the world will be a safer place for liberty.

Finally, if I may be so bold as to say, it is the world, not just the United States, that matters. Even those who have little sympathy for the consequentialist and utilitarian aspects of Hayek's work might remember that, in a world where there is little concern for the rights of individuals, it may be arguments of the kind that Hayek has offered that will have the most impact. And while Hayek might not have moved far enough for some, he did make the move from socialism, to the adoption of liberalism on utilitarian grounds, to an eventual appreciation of the freedom of the individual as important in itself. And this is a path that others may follow in their turn. ☐

Jeremy Shearmur teaches political thought at the University of Manchester in the United Kingdom. He wrote this essay while on a fellowship at the Institute for Humane Studies in Menlo Park, California.

VIEWPOINT

The Recovery They Love to Hate

BY JAMES ROLPH EDWARDS

You'd think everyone would have been happy about the economic expansion experienced this past year. But if anything has been more surprising than the recovery's strength and apparent endurance, it has been the associated attitudes of the news media and the economic analysts whose views they report. Never has a healthy economic expansion been accompanied by such constant expressions of trepidation and anguish! Nightly we have been told that "economists" fear that rising interest rates resulting from excessively rapid growth will choke off the recovery.

Now consider the logic here: Rapid growth makes interest rates rise; higher interest rates reduce growth; so we should have slower growth to prevent the higher interest rates that reduce growth! It is perhaps significant that this bizarre argument is always attributed to *unnamed* economic analysts. I, too, would be reluctant to have my name attached to such reasoning.

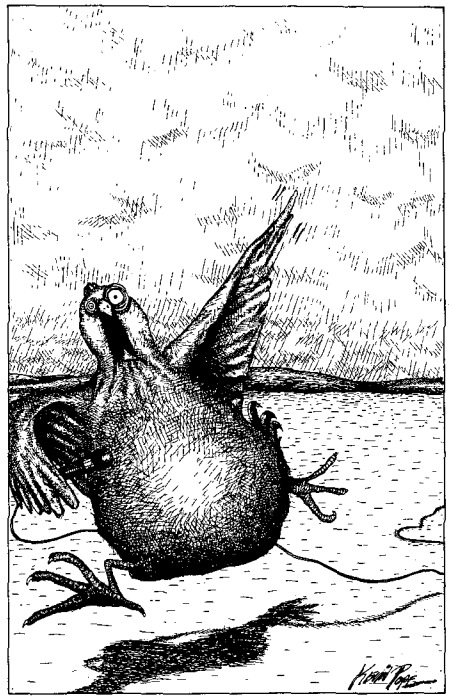
Even the basic assumption of the argument can be shown to be false. Economic growth does indeed lead to higher interest rates as businesses seek loans to expand operations. But interest rates that rise *because* of increased credit demand attributable *to* economic growth must necessarily be associated with *increased* (not decreased) credit extended—and hence must increase, not reduce, economic growth.

This is demonstrably what has happened. Interest rates on financial instruments began rising in May 1983 and continued through July of this year. The prime rate (the rate charged by banks to their largest customers) began rising in August 1983. But business loans, rather than falling, started increasing rapidly in October 1983.

By the fall of 1984, evidence of slower growth was emerging (greeted with euphoria in the media). But this was *not* because the expansion made interest rates rise. The amount of credit extended would decline (resulting in a recession) only if interest rates increased because of a reduction in the *supply* of credit. That is usually a consequence of action by the government, via the Federal Reserve, to severely reduce the rate of growth of the money stock.

Some of the confusion and misinterpretation of the current expansion may be a legitimate result of its unusual character. All previous post–Korean war recoveries have been *demand-side* expansions. In each case the Federal Reserve had caused the prior recession by reducing money-stock growth (to fight inflation). But then, under pressure to cure the resulting unemployment, the Fed responded with rapid expansion of the money stock, increasing the demand for goods, services, and labor—and inducing another round of inflation.

Of course, none of this was ever necessary. Any one of those recessions would



have ended *without* the Fed undertaking rapid monetary growth. If the rate of growth of the money stock was kept low and steady, the inflation rate would sooner or later fall below it.

This would take a little longer than it does for the Fed to "inflate" the economy out of a recession. If it had been done once, however, and inflation had thus been controlled, the whole series of subsequent contractions and expansions would have been avoided (with the exception of the OPEC-induced recession of 1974).

One of the things that is different about the current expansion is that we may have done exactly what could have been done earlier. During the recent contraction, the Fed kept monetary growth low for so long, in the face of massive pressure to reverse course, that people became convinced that for once it *really* meant to control inflation. Inflation and the rate of expected *future* inflation (and hence interest rates leading up to the expansion itself) all fell.

The second thing that is different about this recovery is that it is a *supply-side*, not a demand-side, expansion. Alterations in the growth of the money stock can only cause temporary fluctuations in the growth rates of output and employment around their trends. To increase the trends themselves it is necessary to increase the incentives people have to work, save, and invest in productive equipment. And the best way to do *that* is to lower tax rates on the income earned from such activities.

Liberals who opposed supply-side from the outset have tried to portray the expansion as being led by consumer spending, rather than supply-side factors. But in fact savings are up, and consumption spending as a *proportion* of disposable income is down.

Investment spending also tells a supply-side tale. Personal consumer spending rose at a 4.6 percent annual rate in the first quarter of 1984 and at a 6.9 percent rate in the second. But at the same time capital spending by business was soaring at a 20 percent annual rate. Meanwhile, productivity is up, and the rate of new-business formation and job creation in the last year have been the highest in decades.

The most surprising aspects of this expansion, such as the unexpectedly high growth rates of GNP (10.1 percent per annum in the first quarter, 7.5 in the second) and the persistently low inflation rates, are best explained by its supply-shift character. And that also explains why the reporting of all this good news has, in the liberal media, been characterized by palpable fear and loathing. For the supply-side vision accords individuals a lot more economic freedom than liberals are wont to concede.

James Rolph Edwards teaches economics at Hillsdale College.

Illustration by Kevin Pope

Low-Tax Recipes

BY TIMOTHY CONDON

All right, everybody—it's the end of the year. If (to paraphrase George Gilder in *The Spirit of Enterprise*) you haven't twisted your tax affairs into low-calorie pretzels to feed to the IRS, it's not *too* late. You see, every tax specialist will rant and rave at length about doing your tax planning beginning in June or July. But since we're not all little IRS-accountant automatons, no one except those with *lots* to lose pays any attention to tax matters each year until it's almost too late. Like right now.

But fear not. Here are some special recipes guaranteed to help you put the federal government on a leaner diet.

First of all, if you've got a regular tax-jock who does your taxes each year, call him up *right now* and make him give you an hour or two of his time to talk about last-minute tax angles. He'll be far more efficient than you could be if you were working on your own. Second, tax-helper or no, take a good long look at your overall financial situation for the year. Have you made some big-ticket purchases that will result in big tax savings, such as depreciation write-offs and investment credits? If so, you may want to *put off* some of your tax dodges until next year, since you're already shifted into a lower tax bracket.

On the other hand, how was your income picture during 1984? Did both you and your spouse double or triple your income this year? You may want to pull every trick in the tax books. But wait! Did you rake in hundreds of thousands of bucks in 1983, only to find the largesse dry up in 1984? In that case, you might want to save your bag of tax tricks for next year, when your income will doubtless be even higher than it was in 1983.

So what do you do when you find that you're going to get socked with a big tax bill next April 15? Above all, don't go baying off after any questionable tax shelters. Good, solid, aggressive tax shelters with aggressive promoters who will be around to defend their babies, yes. The kind of shelters that give Robert Dole an Excedrin headache because they *work*, yes. But *not* the fly-by-night outfits that will cost you a bundle when the IRS clamps down on them and everyone who invested in them. How to tell the difference between wheat and chaff? Ask someone in the tax and investment business whom you know is good. Usually someone with one of the big brokerage houses or big accounting firms can give a realistic assessment.

If you own your own business, you should have either a tax advisor or an accountant you can talk to. Go to him or her, pay well for advice at this late date (and deduct the cost), then do what you're told, immediately, and very definitely before December 31. This may mean things like postponing income through various devices or spending big these last few weeks on necessary equipment or machinery, not to mention all those repairs you've been putting off on your business property and equipment. Then there are write-offs for your business—old inventory and bad debts can be taken off the books, resulting in tax savings. Don't forget shifting compensation around, with bonuses (or the lack of them), stock-option plans, 401-K (deferred compensation) plans, and your pension programs. Don't overlook other expenses that can be paid quickly and will benefit you into the next year.

If you're one of the rest of us—those who don't own our own businesses—here are some ideas to consider in the next few weeks. Make some big purchases of things you can deduct, such as a new business-use car or a business computer (but be careful—the 1984 tax act put some very stringent record-keeping rules into effect). Use your Christmas or year-end bonus for deductible purposes, either spending on deductible equipment or supplies, or even just stashing the money in your IRA account (true, you don't need to put the money in until April 15, 1985, but you've got the money *now*, and the interest it earns from the time you stash it is all tax-free). Also, check out your charitable deductions. Have you got a favorite organization, like the Reason Foundation or the Foundation for Economic Education, that you would like to see prosper? Contribute to them—and let the government pay for part of it.

There's more. Look over your medical bills for the year. If they're already high and you've got a fair chance of exceeding the 5-percent-of-adjusted-gross-income cutoff, go ahead and send everyone in the family to the dentist. Have that operation you've been putting off (or at least *pay* for it).

Does someone owe you money and you *know* you're never going to see a dime of it? Well, take the necessary steps to make sure the debts aren't collectible (consult any popular tax book for the rules governing this area), and then take the losses as nonbusiness bad-debt deductions.

How about nonmoney charitable contributions? You can clean out your attic and throw all that old junk at your church for the rummage sale, or give it to the Salvation Army or Goodwill. Ask them for a receipt, but tell them not to put down their estimates of values. You'll take care of that (your deduction is generally what each object cost you or its fair market value at the time you gave it to charity, whichever is less).

There are plenty of other angles to be exploited, but these give a fair idea of the types available. Also, keep in mind that if you had a low-income year in 1984, all of the above advice is *reversed.* Put all those expenditures off till *next* year if you think your income will be higher then. After all, it won't make much difference if you put something off for a few weeks until early January—*except* for tax purposes, which make *plenty* of difference.

Finally, if you have already made your bundle, remember that the end of the year is the traditional time to take advantage of estate-tax dodges, including the $10,000-per-year gift exemption. This is not an income-tax planning area, but it is something that should be kept in mind to save on the last tax each of us will ever be hit with. (But keep in mind that the nerds on the Potomac who passed and signed the 1984 tax bill froze the estate exemption at $275,000. It was to have increased to $325,000 in 1984 and higher in later years.)

So for all of us who don't like to pay taxes (and who does, other than drooling idiots?) yet didn't do the smart thing by planning for tax savings all year long, it still isn't too late. But you'd better jump on it now, or your beloved rulers in Washington will be thanking you and chuckling at the suckers.

Tim Condon is an attorney and tax specialist practicing in Florida.

Pulling No Punches

BY PATRICK COX

Lawrence H. White has the same first and last names as another economist, so he uses his middle initial. Economists can be pretty hard to tell apart—one letter is much to differentiate one economist from another. But White has managed to distinguish himself by taking some of the purest and most radical free-market stands of anyone around.

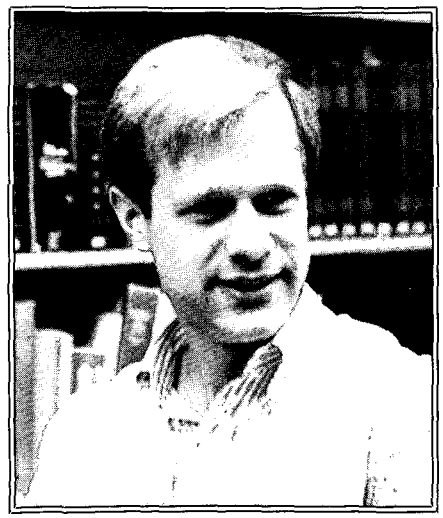
Other free-market economists often expend the lion's share of their energy debating one another about the first step toward more-reasonable institutions. White, in contrast, takes an abolitionist stand. "I want to shape the intellectual climate," he says, "by pushing and taking extreme positions that no one else will take, following the logic of free trade to its end. Some want to work near center and tug, but I think you should go out to the end. I don't believe in pulling any punches." He asserts, "Gradualism in theory is perpetuity in practice."

One year short of 30, White already has finished two important books, as well as numerous chapters and articles that have brought him into the public-policy debate. He has become one of the most-visible advocates and patient explainers of free banking, wherein there is no government involvement in money matters, from currency to banking. And his name even turned up recently in conjunction with a congressional investigation of copier counterfeiting, a threat to the integrity of currency posed by the development of color-copy machines that can supposedly reproduce better phony bills than most professional counterfeiters.

As White testified before the congressional committee, the solution to monetary problems of all sorts would actually be quite simple: return the functions of money creation to the private sector. White says that federal monetary institutions create the problem of counterfeiting by relying on permanently circulating instead of frequently redeemed notes. "That's not the way it was historically," he explains. "There was no counterfeiting problem in Scotland during the free-banking period in the 18th and 19th centuries." His book *Free Banking in Britain: Theory, Experience, and Debate, 1800-1845*, published by Cambridge University Press, is the definitive work on the subject.

White has also edited *Democratick Editorials: Essays in Jacksonian Political Economy*, by William Leggett (Liberty Press). He regards Leggett as the best libertarian writer of his generation. He was an editor of a New York newspaper in the 1830s, and he became known as an advocate of free banking and free trade and an opponent of slavery.

White's special area of research has been the elimination of the government monopoly on the issuance of currency. He figures two stages are necessary to accomplish that goal. The first is deregulation of the banking industry. White is fairly confident that that step, now well under way, will be completed. The second is elimination of government control over the basic money supply. This is politically more difficult, because government profits from the status quo in a number of ways—"bracket creep, eroded debt, and the ability to jazz up the economy for elections," White explains.



LAWRENCE H. WHITE

White says he has considered himself a libertarian since he graduated from high school. Among his earliest philosophical influences was the Quaker tradition of his hometown, Moorestown, New Jersey. The antiwar tradition of the Quakers, especially during the Vietnam war, helped White form an individual-rights philosophy of civil liberties. But it was not until later, when he was near graduation from high school, that he began to apply the same principles to economic philosophy.

While a senior, he saw a *New Republic* advertisement for the now-defunct newsletter *Books for Libertarians*. He ordered it and then some of the books they sold. White was well on the road to challenging the status quo.

He was student-body president at his high school that year and soon dismantled the student government. (It has since been reinstated.) When he participated in a New Jersey YMCA mock legislature called Youth in Government, he ran for governor on a libertarian platform taken from the book *Power and Market*, by Murray Rothbard.

Being a self-admitted "overachiever type," White decided to get a head start the summer before college. He read another of Rothbard's books, *Man, Economy, and State*, a treatise laying out the thought of the Austrian School of economics.

In 1973 White entered Harvard University. He says it was a little disappointing to discover that the economics department there did not agree with his newly acquired view of reality. On the other hand, he notes a certain advantage to having "an outsider perspective from the beginning"—he "never had to unlearn" Harvard's economics.

White had planned to go on to law school, but by the time he graduated from Harvard *magna cum laude* in 1977, he had decided that the way to influence the course of events was not through legal activism. The people who were changing the future, he thought, were people like Austrian economists and free-market advocates Murray Rothbard and Israel Kirzner. So it was off to graduate school at the University of California at Los Angeles for a master's and doctorate in economics.

He now teaches economics at the American "home" of Austrian economics, New York University. Teaching, however, isn't his primary goal. "Some people are influenced through teachers," he says, "but I was not. So I assume that most of the people whose views I influence will be through what I write." He probably assumes correctly.

Patrick Cox is a free-lance writer and a public relations consultant.

Photograph courtesy Institute for Humane Studies

Life & Liberty

Space for Freedom

By Poul Anderson

When our forebears came to the New World in the wake of Columbus, they flourished in the elbow room of a vast new continent. Free institutions took root and for several centuries thrived as never before. Today we again feel the walls closing in...on earth. As I concluded a toast at this year's annual convention of the L-5 Society, the largest and most effective of the activist organizations that promote space development, "Here's to elbow room!"

It is a magnificent dream, that beyond this sky humanity may win an endlessness of new worlds where not only is wealth abundant but the dead hand of the state does not reach. Those who stay behind will surely benefit, too, just as Europe did from its daughter countries—by an inflow of resources and advanced technologies; by the inspiration of discoveries, achievements, marvels, and, above all, societies where people are free. Indeed, my considered opinion is that without space colonization, high-energy civilization such as we enjoy does not have very much longer to live. We are using up this planet.

That the resources are out there, and that it is feasible to go get them, has been abundantly demonstrated. See, for openers, the writings of Arthur C. Clarke, Gerard K. O'Neill, Jerry Pournelle, G. Harry Stine, and J. Peter Vajk. Quite a few others agree, in places as diverse as Europe, the Soviet Union, China, and Japan.

Should government funds spent on pursuit of the dream have been spent instead on the poor at home? Apropos this fashionable worry—which is not at all addressed to whether adventurous souls might have plunged into space on their own—it must be noted that the first steps have not been an extravagance compared to other governmental programs. In the year before the first moon landing, when the National Aeronautics and Space Administration (NASA) was at its budgetary peak, it got about 7 cents of federal money for every dollar that went to serving social needs. It would be unkind to compare the results.

Thus far the real gains, as opposed to the "spinoff" hype, are often less than obvious, because they are so pervasive. Possibly we *could* have created remarkable new materials, miniaturizations, computer systems, management techniques, and other industrially priceless goods, as well as life-saving biomonitors, here at home—but the fact is that we didn't. And there is no way we could have made the discoveries and achievements that depend on actually being in space.

Take communications satellites. Like Thoreau, I doubt whether Maine and Texas have much worth saying to each other, but they are bound to say it; and there are some phone calls and TV programs that *are* important (India, for example, has staked a good deal of its future on satellite-transmitted education of its villagers). Comsats are cheaper for meeting those needs than are long-distance cables and relays. Money is shorthand for labor and natural resources, of which we have hereby freed up a lot for other uses.

Meanwhile, weather satellites have brought about a revolution in meteorology. The savings to life, property, and agriculture have already exceeded the entire cost of the space program from its beginning. Navigational satellites are also amply earning their keep. New industrial and pharmaceutical processes, which can only be carried out in orbit, are now at the planning and experimental stages. A Golconda of biological knowledge is waiting, too, with all that that implies for human well-being.

None of this is to justify the way in which the dream has been pursued thus far. It is to hold on to the dream even as more and more enterprising space adventurers rise to the challenge.

True, a launch does still cost a pretty penny, but this need not remain the case. If energy could be applied with perfect efficiency, then giving one kilogram of mass the freedom of the solar system would cost about $1.25 at the electrical rates that I presently pay. That's cheaper than operating existing aircraft. Granted, it's an ideal case, but laser or electromagnetic launch systems promise to approximate it eventually, and meanwhile rockets can be vastly improved.

I'm not alone in this opinion. The last time I counted, there were—besides NASA and foreign undertakings—seven American companies working to get into space. Clearly, they smell a profit. What is there?

Solar energy is merely the first treasure. Here on the ground, it can at best be a helpful but minor auxiliary energy source; more frequently, it's just another sell by the antinuclear crowd. The sun gives us about 1.4 kilowatts per square meter—at high noon on a clear day in the tropics, allowing for no inefficiencies, transmission losses, or ecology covered over.

In space, though, we are free of such terrestrial limitations. We can make our collectors as big as we like, requiring little maintenance and no fuel. While we should, of course, conduct preliminary tests to make sure, we have no reason to expect any harm from the microwaves that would beam the energy down. Humans wouldn't want to live in the

THE FIRE WITHIN
by Joe David

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areas where receiver rectennas are arrayed, but they can safely pay routine visits, and livestock can graze on the land. Think of it!—not only no more energy shortages, but no more poisons spewed out of power plants.

Collectors in Earth orbit are of questionable utility, and they would in any event badly clutter up the night sky. But David Criswell has shown that we can put them on the moon, built mostly out of lunar materials. Three stations should suffice. This would mean a permanent human presence there, but that's desirable in its own right. The moon is a mine of resources that can easily be launched off of it.

The moon's one serious lack appears to be hydrogen, but ice may well lie under the poles. If not, comets have plenty of water, while asteroids have all the metals we'll ever need. These won't be hard to get at either, once we've actually established ourselves in space. As Robert A. Heinlein has put it, "Once you're in Earth orbit, you're halfway to anywhere."

In the more distant future is the realistic prospect of moving our necessary but human-hostile industries into space. There, they could not harm a home planet that our descendants may, conceivably, turn into a residential Eden. Even before then, vigorous, self-supporting communities will exist throughout the solar system. While space does pose its hazards, on balance it turns out to be less unfriendly than the ocean bottom, the Sahara Desert, or the Antarctic interior.

In that longer range, and given that wealth, we may dare hope that a variety of new civilizations, many of unprecedented kinds, will thrive and that among them will be, somewhere, people who are truly free. The dream has obstacles to overcome that dwarf any technical problems.

Government obstruction may prove to be not the worst of these. After all, certain governments, notably the Soviet, are quite interested in space colonization. Still, liberty in space could be frustrated by the stridency of the Third World nations whose unsuccessful "moon treaty" would have banned private enterprise yonder; or by exigencies of defense and war; or simply by the appetite for regulation among our own politicians and bureaucrats. We cannot ignore politics.

But those are right now only potential threats. At present, the unimaginativeness and outright timidity of our great corporations is what stands conspicuously in the way. They have the capital to do the job, but they aren't about to venture it. Apparently we must depend on the likes of small entrepreneurs like Gary Hudson and Phil Salin, most of whom are operating on a shoestring.

If people do get into space to stay, they will face a set of demanding environments. The instrumentalities required are going to be more than a sodbuster's plow or a prospector's mule—not just expensive but potent, involving energies on the order of the Hiroshima bomb. In the communities themselves, mutual survival will call for mutual discipline. Even so, considerations like these should be relatively minor.

On the positive side, a free folk in space should easily be able to defend itself. Maybe the next century or two will see declarations of independence popping forth all over the solar system. We can do it—we, you and I, can get this started—if we want it enough. In the end, as always, what happens to human beings will be the work of the human spirit.

Poul Anderson is the author of numerous science-fiction works.

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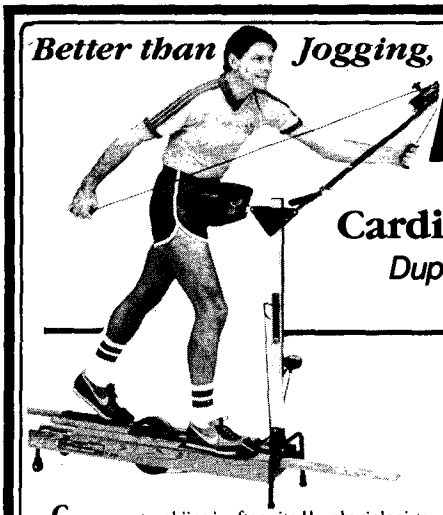

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LETTERS

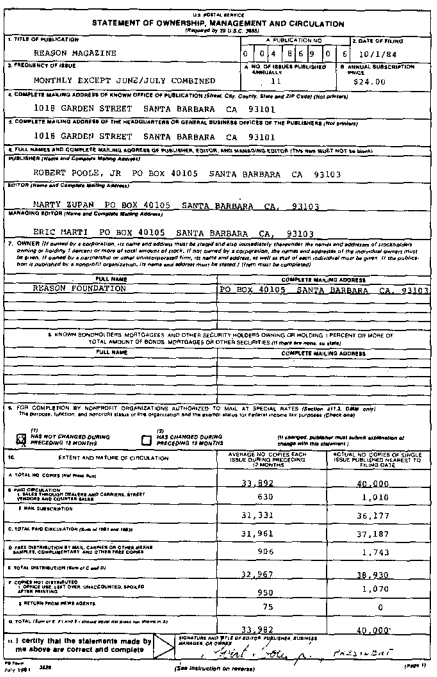
(Continued from p. 10)

was $5,000 or less during the whole year." This refers to all accounts of all persons reported on a Form 1040.

Under this provision, in order for each of five family members to have accounts of $5,000, totaling $25,000 for the family, as suggested by Mr. Skousen, it appears each would have to file a separate income tax return—which would probably cost more in income tax payments than if all five family members were reported on a single Form 1040.

John F. Barnard
Washington, DC

The editors reply: According to the authoritative Commerce Clearing House Federal Tax Guide, an individual is subjected to the reporting requirement only for "title ownership of any foreign account, held individually or jointly with one or more persons, or the holding of a foreign account as representative of some other person." So if each member of a five-person family that is submitting a single tax return had, in *his or her own name*, up to $5,000 in a foreign account, there would be no reporting requirement. (A complication could arise if a married couple each had foreign accounts that together totaled more than $5,000; in that instance, an argument could be made that these funds must be reported, though not all tax specialists would agree with that argument.)



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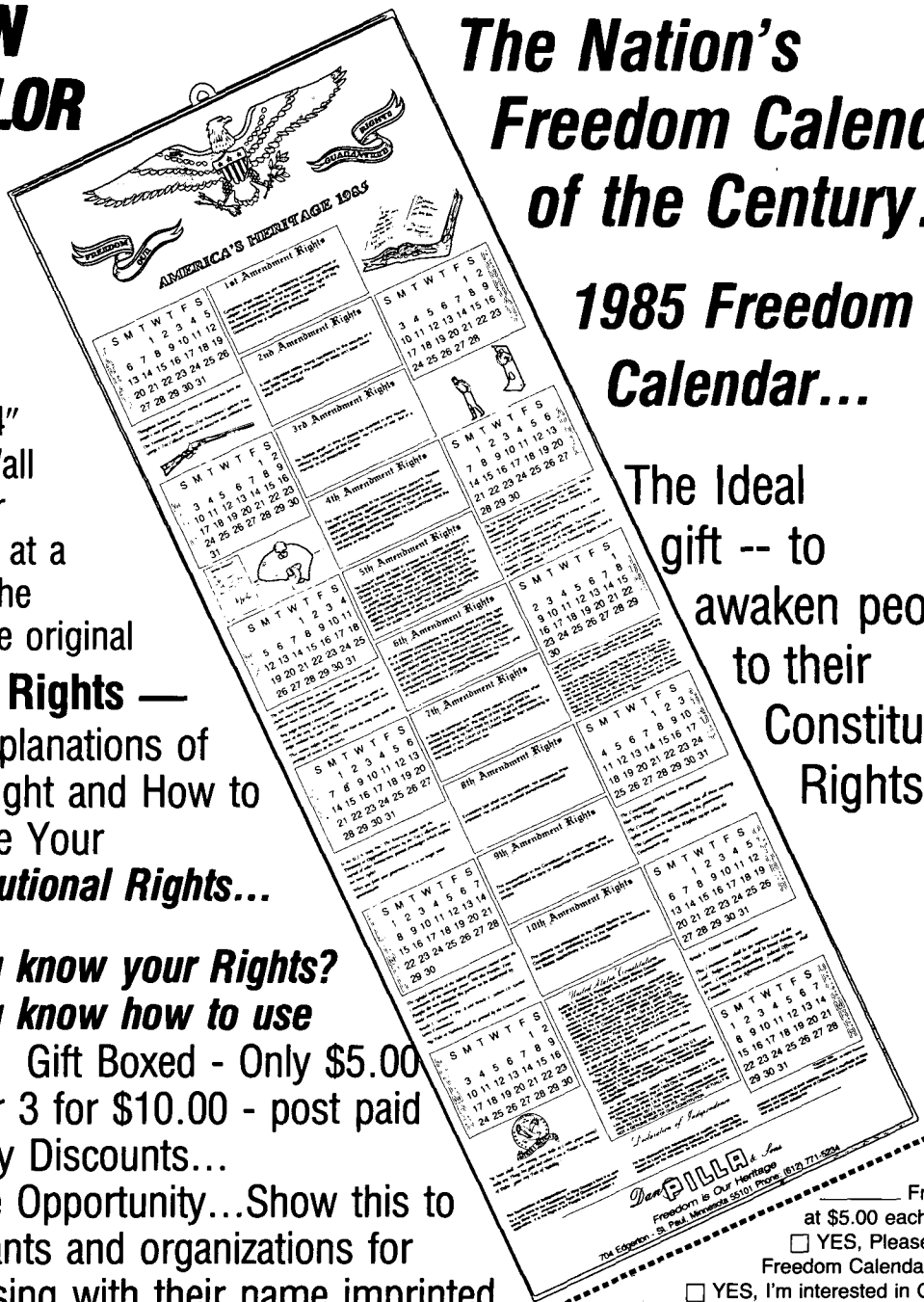

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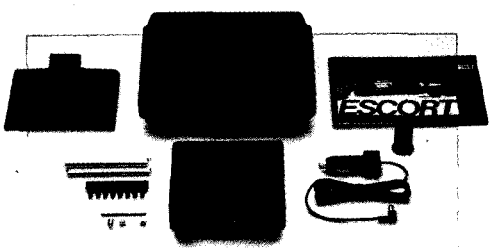

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